

North Carolina

Tax Guide 2002

Tax Guide 2002

**Office of State Budget and Management
20320 Mail Service Center
Raleigh, NC 27699-0320
919/733-7061**

The Office of State Budget and Management presents the *North Carolina Tax Guide*. The *Guide* provides an overview of North Carolina's tax structure including General Fund, Highway Fund, Highway Trust Fund, and local government taxes. The information contained herein is intended for state lawmakers and planners, the business community, public interest groups, and individuals. The *North Carolina Tax Guide* is not available in hard copy. If further information is required please contact this Office.

CONTENTS

PART I. INTRODUCTION

Overview	6
Two Tax Concepts: Tax Elasticity and Tax Burden.....	6
Chart 1. Tax Collections Received By North Carolina State and Local Governments (2000-01)	9
Chart 2. North Carolina State Tax Collections (2000-01).....	10

PART II. GENERAL FUND TAXES

Chart 3. North Carolina General Fund Tax Collections (2000-01)	12
Alcoholic Beverage Tax.....	13
Cigarette/Tobacco Tax.....	17
Corporate Income Tax	19
Estate Tax.....	23
Franchise Tax.....	24
Freight Car Tax.....	27
Gift Tax.....	28
Individual Income Tax.....	30
Insurance Tax.....	34
Piped Natural Gas Tax.....	36
Privilege License Tax.....	37
Sales and Use Tax.....	39

PART III. HIGHWAY FUND TAXES

Chart 4. North Carolina Highway Fund Tax Collections (2000-01)	44
Dealer and Manufacturing License Fees	45
Driver's License Fees	47
Financial Security Restoration Fees.....	49
Gasoline Inspection Fees	50
International Registration Program.....	52
Motor Fuels Tax.....	54
Overweight/Oversize Permits	57
Penalties	58
Process Service Fees	60
Registration Fees.....	61
Safety Equipment Inspection Fees	62
Staggered Registration Fees.....	64
Truck License Plate Fees	66

PART IV. HIGHWAY TRUST FUND TAXES

Chart 4. North Carolina Highway Trust Fund Tax Collections (2000-01).....	70
Highway Use Tax.....	71
Lien Recording Fees	73
Motor Fuels Tax.....	74
Title and Registration Fees	75

PART V. LOCAL GOVERNMENT TAXES

Chart 5. North Carolina Tax Collections Received by Local Government (1994-95)	78
Excise Tax on Beer and Wine: Local Government	79
Excise Tax on Conveyances: Local Government	81
Land Transfer Tax.....	83
Liquor By-The-Drink Tax.....	84
Privilege License Tax: Local Government	86
Property Tax.....	88
Room Occupancy Tax.....	91
Sales and Use Tax: Local Government.....	92
Utility Excise Tax: Local Government	94

PART VI. RECENT TAX LEGISLATION

2000 Legislative Session.....	97
2001 Legislative Session.....	101

PART VII. COMPARISON OF NORTH CAROLINA TAX COLLECTIONS WITH THOSE OF OTHER STATES

Table 1. Level and Percentage Distribution of State and Local Tax Collections, By Level of Government, 1998-99	112
Table 2. State Ranking of State and Local Tax Burden, Per Capita and as a Percentage of Personal Income, for 1998-99	115
Table 3. Estimated Impact of Recent Tax Changes in the United States, Enacted in 2001, 2000, and 1999	118
Table 4. State and Local Tax Collections, Per Capita and as a Percentage of Personal Income, by Source, for the United States and the Eleven Most Populated States and the Mid-Southeastern States, for 1998-99	121
Table 5. Percentage Distribution, Per Capita Tax Burden, and Tax Burden as a Percent of Personal Income, of State and Local Taxes, by Type of Tax, for the United States, the Eleven Most Populated States, and the Mid-Southeastern States, 1998-99.....	123

Introduction

The *Tax Guide* is designed to give the reader an overview of the tax structure of both state and local governments of North Carolina. In the *Guide* the reader will find a concise summary of North Carolina tax laws and pertinent statistics, including the growth and distribution of tax collections and a comparison of tax burdens. Further, whenever possible, comparisons of tax laws governing specific taxes in North Carolina with those of other states are presented.

The *Tax Guide* consists of seven sections. Part I is the Introduction. The overall scope of the *Guide* is discussed in this section along with an explanation of two important concepts--tax elasticity and tax burden.

Summaries of the tax laws governing North Carolina's General Fund, Highway Fund, Highway Trust Fund, and local government taxes follow in Parts II, III, IV and V. Also included in these sections is a brief history of individual tax collections, statement of the tax calendar, measurement of tax elasticity, and whenever possible, compare the rate and base of each tax with those of other states.

A summary of the tax legislation that was enacted since the publication of the last *Guide* is presented in Part VI. This summary includes the action of the 2000 and 2001 Sessions of the General Assembly. A brief summary of the legal changes affecting each tax along with an estimate of their fiscal impact is given.

In the last section, Part VII, an analysis is given of the total state and local tax burden in North Carolina in comparison to those of other states. Tax burdens are evaluated on a per capita and percentage of personal income basis. Special emphasis is made to compare North Carolina with the 6 mid-Southeastern states and the eleven most populated states. Further, the relative distribution of taxes is presented.

TWO TAX CONCEPTS: TAX ELASTICITY AND TAX BURDEN

In order to fully comprehend the impact a tax has on economic behavior, two concepts must be understood: tax elasticity and tax burden. Tax elasticity is a measurement of the revenue productivity of a tax. That is, it measures the responsiveness of changes in tax collections to changes in economic conditions. Tax burden measures the impact of a tax on the purchasing power of an individual or a business. An understanding of tax burden is important in evaluating who pays a tax, how much is paid, and in comparing tax efforts among different states.

Tax Elasticity. Growth in the level of specific tax collections is influenced by many factors. For instance sales tax collections are influenced by retail sales, individual income tax collections by wage and salary disbursements and the level in employment, and corporate income tax collections by corporate profits. A key variable that influences

most tax collections, either directly or indirectly, is personal income. A growth in personal income will cause retail sales to increase and is usually associated with a rise in corporate profits.

To measure the elasticity of a tax, changes in tax collections are related to changes in personal income. The statistic personal income is used as the key-determining variable for two reasons: first, it is a widely recognized and understood statistic; and second, most tax collections are directly, or at least indirectly, influenced by it. By relating the growth of tax collections to one variable--personal income--uniform comparisons can be drawn. Personal income can increase for several reasons. First, purchasing power can increase (real growth); second, dollar income can increase while purchasing power remains the same (inflation); and third, both events can occur simultaneously.

Tax elasticity measures the responsiveness of an increase or decrease in tax collections to a given increase or decrease in the level of personal income. Specifically, it is measured by the ratio of the percent change in tax collections divided by the percent change in gross state personal income. For example, if gross state personal income increases at an average annual rate of 10% while individual income tax collections increase at an annual average rate of 12%, the tax elasticity is determined as follows:

$$\frac{\text{Average Annual Percent Change in Tax Collections}}{\text{Average Annual Percent Change in Gross State Personal Income}} = \frac{12}{10} = 1.20$$

For the purpose of this *Guide*, a tax will be considered income elastic (highly responsive to changes in gross state personal income) if the tax elasticity as measured by this calculation is equal to or greater than 1.10 (as in the example above), moderately elastic if it is between 0.90 and 1.09, and inelastic (relatively unresponsive) if it is less than 0.90. All North Carolina taxes demonstrate some degree of elasticity. Whenever possible, as part of the description of each tax, the elasticity is estimated.

Estimates of the income elasticity of tax collections are obtained by regression analysis, which measures how much of a change in the dependent variable (tax collections) is explained by changes in the independent variable or variables (personal income). The measurement is given by the value of the "R²." For example, if R² = 0.92, then 92% of the change in the dependent variable can be explained by changes in the independent variables.

Tax Burden. Tax burden is the amount of sacrifice individuals make when paying their taxes. In its simplest form, tax burden can be measured in terms of the number of dollars of an individual's income that must be dedicated to tax payments. The more dollars an individual must sacrifice the greater the tax burden.

Two common measures of tax burden are per capita tax payments and taxes paid as a percentage of personal income. The per capita tax payment is the average amount of taxes paid by each individual. It is found by dividing total state and local tax payments of a state by the population of the state. For instance, suppose there are 100 people in State

A who pay a total of \$50,000 in state and local taxes, while there are 75 citizens in State B who pay \$30,000. The per capita tax payments in each state is determined as follows:

$$\text{Per Capita Tax Payments (State A)} = \frac{\text{Total State and Local Taxes Paid}}{\text{Total State Population}} = \frac{\$50,000}{100} = \$5,000$$

$$\text{Per Capita Tax Payments (State B)} = \frac{\text{Total State and Local Taxes Paid}}{\text{Total State Population}} = \frac{\$30,000}{75} = \$4,000$$

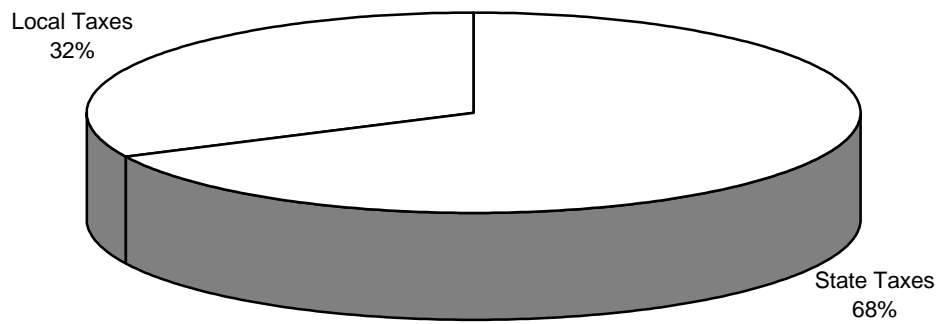
Taxes paid as a percentage of personal income are found by dividing the total amount of state and local taxes paid by the total state personal income. For instance, suppose the citizens of State A have a total income of \$1,000,000 while the citizens of State B have a total income of \$400,000. Taxes paid as a percentage of personal income are found as shown below:

$$\text{Taxes Paid as a Percentage of Personal Income (State A)} = \frac{\text{Total State and Local Taxes Paid}}{\text{Gross State Personal Income}} = \frac{\$50,000}{\$1,000,000} = 5\%$$

$$\text{Taxes Paid as a Percentage of Personal Income (State B)} = \frac{\text{Total State and Local Taxes Paid}}{\text{Gross State Personal Income}} = \frac{\$40,000}{\$400,000} = 10\%$$

Taxes paid as a percentage of personal income are a better measure of tax burden than per capita tax payments. In the above example, the average citizen in State A paid more taxes than the average citizen in State B. Citizens in State A had a higher per capita tax burden. However, since the average income of citizens in State A was much higher than that of State B, they sacrificed a smaller portion of their income in tax payments. Obviously, their tax burden in terms of real sacrifice (amount of private consumption given up to pay taxes) was less. The concept of tax burden is frequently used in Part VII to analyze the tax effort of citizens of North Carolina compared to the tax burden of citizens of other states.

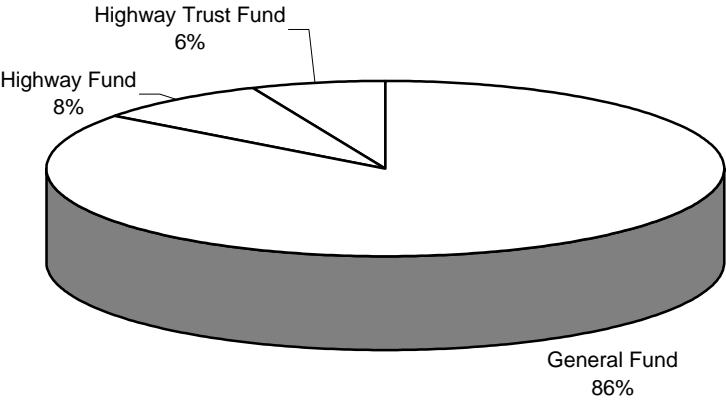
CHART 1
TAX COLLECTIONS RECEIVED BY NORTH CAROLINA
GOVERNMENTS
(2000-01)



State Taxes	\$14,744,623,016
Local Taxes	7,012,236,585

Total State and Local Taxes	\$21,756,859,601

CHART 2
NORTH CAROLINA STATE TAX COLLECTIONS
(2000-01)

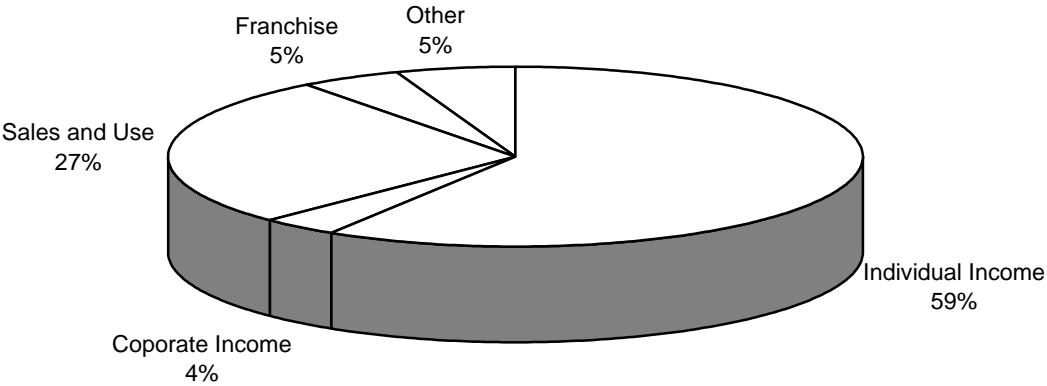


General Fund	\$12,574,144,755
Highway Fund	1,245,073,012
Highway Trust Fund	925,405,249

Total State Tax Revenue	\$14,744,623,016

General Fund Taxes

CHART 3
NORTH CAROLINA GENERAL FUND TAX COLLECTIONS
(2000-01)



Individual Income	\$7,391,342,524
Corporate Income	860,315,086
Sales and Use	3,435,558,577
Franchise	580,431,850
Other	707,496,718

Total	\$11,966,224,754

ALCOHOLIC BEVERAGE TAX

NORTH CAROLINA STATUTES

105-113.68 to 105-113.89; 18B-902; 18B-804

ADMINISTERED BY

Department of Revenue and the Alcoholic Beverage Control Commission

Fiscal Year	General Fund Collections	Annual Percent Change	Percent of General Fund Tax Collections
1994-95	163,188,783	1.3	1.7
1995-96	145,517,853 (1)	-10.8	1.5
1996-97	150,208,567	3.2	1.5
1997-98	153,723,510	2.3	1.4
1998-99	158,026,529	2.8	1.3
1999-00	166,372,353	5.3	1.3
2000-01	172,698,910	3.8	1.4

(1) In lieu of an annual fixed appropriation, the General Assembly restored the earmarking of a portion of the tax to local governments.

BASE AND RATE

Excise taxes are levied on beer, wine, and spirituous liquors. Resident wholesalers and importers pay excise taxes on beer and wine, and local alcoholic beverage control boards pay excise taxes on liquor.

An applicant for a permit issued by the North Carolina Alcoholic Beverage Control Board must pay the following fees: 1) \$400 to sell either malt beverages, fortified wine, or unfortified wine on premises; 2) \$400 to sell either malt beverages, fortified wine, or unfortified wine off premises; 3) \$400 brown bagging permit for an establishment seating 50 or more, and \$200 for an establishment seating less than 50; 4) \$400 for a special occasion permit, and \$50 for a limited special occasion permit; 5) \$1,000 for a mixed beverage, or guest room cabinet permit; 6) \$200 for a culinary, winery special event, or mixed beverage catering permit; 7) \$300 for a unfortified winery, fortified winery, limited winery, brewery, distillery, wine importer, wine wholesaler, malt beverage importer, malt beverage wholesaler, or bottler permit; 8) \$100 for a fuel alcohol permit; 9) \$100 for a salesman; 10) \$50 for a vendor representative permit, or certain special one-time permits; 11) \$100 for a nonresident malt beverage vendor or nonresident wine vendor permit; 12) \$500 for a liquor importer/bottler permit; and 13) \$300 for a special wine tasting permit for wineries, and \$100 for retail establishments.

By authorization of local elections, liquor "by the drink" may be sold by qualified restaurants and clubs. An additional tax of \$20 per gallon is levied on liquor purchased by restaurants or clubs for sale by the drink. Of this levy, \$9 remains with local governments along with various mixed beverages permit fees. For more information see "Liquor By-the-Drink Tax" in Local Government Section.

In addition to the above levies, the following excise taxes are imposed: 1) beer is taxed at a rate of 53.177 cents per gallon (this is equivalent to 5 cents per can); 2) unfortified wine is taxed at 21 cents per liter; 3) fortified wine is taxed at 24 cents per liter; and 4) spirituous liquor is taxed at 25% of retail price by the state. An additional 3.5% levy on the retail price is allocated as part of ordinary profits of the ABC store to the respective localities where the ABC store is located. Similarly, an add-on tax of 5 cents per bottle of liquor sold in ABC stores is levied, with the revenue distributed to local governments in the same manner as profits from the ABC stores.

DISTRIBUTION

The state earmarks 23.75% of the excise tax on malt beverages, 62% of the excise tax on unfortified wine, and 22% of the excise tax on fortified wine to local jurisdictions in which such sales are allowed. The remaining revenue is deposited in the General Fund. Revenue deposited in the General Fund is used for general purposes except for the first \$350,000 in collections of the excise tax on unfortified wines fortified wine bottled in North Carolina. This revenue is allocated to the Department of Agriculture for the promotion of N.C. grapes. Of the \$20 per four liters levy on alcohol used for liquor by-the-drink sales, \$10 goes to the General Fund, \$1 to the Department of Human Resources and \$9 to the local governments where the sales took place. In addition, 5 cents per bottle "add-on" tax on any alcohol sold in Alcoholic Beverage Control (ABC) stores goes to county commissioners for rehabilitation of alcoholics. An additional 3.5% levy above the state excise tax of 28% on the retail price of alcohol sold in ABC stores is also allocated to local governments in localities where such stores are located as part of the profits of the ABC stores. A 5 cents per bottle add-on of liquor sold in ABC stores is levied. Counties and municipalities use the revenue in the same manner as profits from local ABC stores. Only General Fund revenue is shown above.

TAX CALENDAR

Wholesalers and importers of beer and fortified and unfortified wine and ABC Boards must file returns including monthly tax payments by the fifteenth day of the month for the previous month's activities.

TAX ELASTICITY

The consumption of alcoholic beverages is influenced by the price of the product, social habits, demographics, and purchasing power as reflected by personal income. Tax collections are closely related to personal income ($R^2 = 0.91$). That is, 91% of changes in

collections are associated with changes in personal income. Consumption has increased slightly in recent years, but has lagged behind the growth in personal income, and has an estimated elasticity of 0.39. That is, for every 10% increase in personal income, tax collections increase by 3.9%.

COMPARISON WITH OTHER STATES

All fifty states levy alcoholic beverage taxes, with 18 states, including North Carolina, having state licensed stores. Tax rates vary considerably as each state enacts different tax rates on beer, wine, and spirituous liquors. Because of the wide variety of laws, it is difficult to make an exact comparison of North Carolina's laws with those of other states. However, the following comparison will give the reader a good approximation of the relative tax burdens. The latest complete survey on the taxation of alcoholic beverages is for calendar 1999, and consists of the combined revenue per wine gallon from all state and local taxes, fees, and levies on alcoholic beverages.

Taxes on beer ranged from \$0.11 per gallon to \$1.84 per gallon. The average overall tax rate for the nation was \$0.88 per gallon, while the average rate for the 6 mid-southern (1) states stood at \$1.07, and \$0.99 for the 11 most populated states (2). North Carolina's rate was \$1.06 per gallon. North Carolina tied Texas for the 12th highest tax rate in the nation, while standing 3rd among the 6 mid-Southeastern states, and tying for 4th the 11 most populated states.

Taxes on wine ranged from \$0.69 per gallon to \$7.46 per gallon. The average overall tax rate for the nation was \$2.65 per gallon, while the average rate for the 6 mid-Southeastern states stood at \$2.99, and \$2.95 for the 11 most populated states. North Carolina's rate was \$2.98 per gallon. North Carolina had the 19th highest tax rate in the nation, while standing 4th among the 6 Southeastern states, and the 4th highest among the 11 most populated states.

Taxes on distilled spirits ranged from \$3.75 per gallon to \$26.64 per gallon. The average overall tax rate for the nation was \$12.82 per gallon, while the average rate for the 6 mid-Southeastern states stood at \$14.58, and \$15.01 for the 11 largest states. North Carolina's rate was \$19.45 per gallon. North Carolina had the 10th highest combined tax rate in the nation, while standing 2nd among the 6 mid-Southeastern states, and 4th among the 11 most populated states.

(1) Georgia, Kentucky, North Carolina, South Carolina, Tennessee, and Virginia.

(2) California, Florida, Georgia, Illinois, Michigan, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Texas.

**REVENUE PER GALLON FROM COMBINED STATE AND LOCAL
COLLECTIONS,
ON BEER, WINE, AND DISTILLED SPIRITS, FOR NORTH CAROLINA
AND SURROUNDING STATES IN 1999**

STATES	BEER	WINE	SPIRITS
United States	\$ 0.88	\$ 2.65	\$ 12.82
Six Mid-Southeastern States	1.07	2.99	14.58
Eleven Largest States	0.99	2.95	15.01
Surrounding States			
Georgia	1.59	3.30	10.48
Kentucky	0.76	2.08	9.29
North Carolina	1.06	2.98	19.45
South Carolina	1.21	2.41	14.79
Tennessee	0.87	3.89	13.87
Virginia	0.90	3.28	19.58

Source: Information is obtained from "Public Revenues from Alcohol Beverages, 1999," Distilled Spirits Council of the United States, Inc., Washington, D.C., January, 2001.

CIGARETTE/TOBACCO TAX

NORTH CAROLINA STATUTES

105-113.2 to 105-113.40

ADMINISTERED BY

Department of Revenue

Fiscal Year	General Fund Collections	Annual Percent Change	Percent of General Fund Tax Collections
1994-95	44,635,750	17.7	0.5
1995-96	46,697,736	4.6	0.5
1996-97	46,677,349	-0.04	0.5
1997-98	47,177,218	1.1	0.4
1998-99	44,852,542	-4.9	0.4
1999-00	43,663,205	-2.7	0.4
2000-01	42,025,877	-3.8	0.3

BASE AND RATE

A five cents tax per package of 20 cigarettes is levied on distributors. A distributor license fee of \$25 is levied on any place where a distributor receives or stores non-tax-paid cigarettes.

A 2% wholesale excise tax is levied on tobacco products other than cigarettes. In addition, a \$25 license fee is levied on wholesale dealers, and a \$10 license fee is levied on retail dealers for each place where a wholesale or retail dealer makes tobacco products other than cigarettes, or receives or stores other such non-tax-paid tobacco products.

A 4% discount is allowed for a wholesale or retail dealer who files a timely report and makes timely payments.

DISTRIBUTION

Revenue is deposited in the General Fund for general purposes.

TAX CALENDAR

Cigarette distributors as well as other tobacco product wholesaler and retail dealers file monthly returns with payment of tax by the twentieth of each month for the previous month's activity.

TAX ELASTICITY

Tobacco sales have declined slightly between fiscal 1994-95 and 2000-01. However, the tax elasticity of collections was not estimated because the statistical relationship between personal income and tax collections was weak as a result of the volatility of the series.

COMPARISON WITH OTHER STATES

All states levy cigarette taxes. Rates ranged from 2.5 cents to \$1.42 per pack. Localities in six states can levy additional cigarette taxes. The median tax for the nation was 34 cents per pack. North Carolina had the 3rd lowest rate in the nation at 5 cents per pack. A distribution of cigarette tax rates is shown below.

DISTRIBUTION OF STATE CIGARETTE TAX RATES, AS OF JANUARY 1, 2002

Cents Per Pack	Number of States
Below 10 cents	4
10 cents to 24 cents	16
25 cents to 49 cents	11
50 cents to 99 cents	13
Above 99 cents	6

Source: State Excise Tax Rates on Cigarettes, January 1, 2002. Federation of Tax Administrators' web page.

CORPORATE INCOME TAX

NORTH CAROLINA STATUTES

105-129.1 to 105-129.37, 105-130.0 to 150-132.0, 105-163.38 to 105-163.47, and 105-151.21.

ADMINISTERED BY

Department of Revenue

Fiscal Year	General Fund Collections	Annual Percent Change	Percent of General Fund Tax Collections
1994-95	649,389,838	33.1	6.9
1995-96	673,837,774	3.8	7.1
1996-97	717,750,574	6.5	7.0
1997-98	696,338,557	-3.0	6.3
1998-99	848,509,669	21.9	7.1
1999-00	903,241,974(1)	6.5	7.3
2000-01	406,315,086(2)	-49.0	3.7

- (1) A change in an accounting procedure resulted in \$92 million in corporate franchise tax collections to be recorded under the corporate income tax schedule.
- (2) The \$92 million was transferred back from the corporate income tax schedule to the corporate franchise tax schedule. In addition, collections fell as a result of the recession.

BASE AND RATE

North Carolina's definition of income basically follows the federal statutes. A 6.9% corporation income tax is levied on corporate net income derived from all business conducted in the state. Multi-state corporations are required to use a specific formula to obtain the percentage of income earned in North Carolina, which is then applied to total net income in order to compute the net income subject to the North Carolina income tax. The basic formula used in North Carolina is a three-factor formula with a double weighting of the sales factor. The factors are: 1) the value (original cost) of real and tangible property owned or rented by the company in this state to total value of such property; 2) the level of payrolls in this state to total payrolls; and 3) the level of sales to customers in this state to total sales. Separate formulas are available for railroads, telephone, telegraph, and motor carrier companies. The North Carolina Tax Review Board may authorize alternative methods. A one-factor formula based on the sales ratio is used by building contractors, security dealers, loan companies, or corporations receiving more than 50% of their ordinary gross income from intangible property.

The following corporations are exempt from the North Carolina corporate income tax: 1) cooperative banks without capital stock organized for mutual purposes and without profits; 2) credit unions; 3) insurance companies subject to the tax on gross premiums; 4) telephone membership and electric membership corporations; 5) business development corporations; and 6) nonprofit corporations except for income in excess of \$100,00 annually that is not substantially related to the functions for which the nonprofit organization was formed.

North Carolina provides many corporate income tax credits. Several credits are designed to encourage economic development especially in economically depressed counties. The credits may vary between counties, and companies must meet various criteria to qualify for the various credits. The credits often apply to a portion of expenditures, and are subject to maximum allowable amounts. If the criteria is met the credits are for: 1) hiring additional full time employees for the following industries: manufacturing, warehousing, data processing, central office or aircraft facility property that creates at least 40 new jobs, air courier services, computer services, customer service centers located in select areas, electronic mail order houses that creates at least 250 new jobs and are located in selected areas, and wholesale trade; 2) certain expenditures incurred for providing training of five or more eligible employees for the following industries manufacturing, warehousing, data processing, central office or aircraft facility property that creates at least 40 new jobs, air courier services, computer services, customer service centers located in select areas, electronic mail order houses that creates at least 250 new jobs and are located in selected areas, and wholesale trade; 3) amount spent to purchase or lease and place in service in this State depreciable machinery and equipment for the following industries: manufacturing, warehousing, data processing, central offices; central office or aircraft facility property that creates at least 40 new jobs, air courier services, computer services, customer service centers located in select areas, electronic mail order houses that creates at least 250 new jobs and are located in selected areas, and wholesale trade. (These credits sometimes extend to leased machinery and equipment that is depreciable for federal tax purposes.); 4) taxpayers who claim the federal income tax credit for increased research activities; 5) cost of machinery and equipment of major recycling facilities; 6) manufacturers who export cigarettes to foreign nations; 7) machinery and equipment used in production based on technology licensed from a state research institution; 8) corporations using the ports of Wilmington and Morehead City; 9) 25% of contributions or investments a development zone agency in a development zone; 10) enhanced incentives for establishments located in development zones; 11) cost of renewable energy property used in residential and nonresidential structures; 12) electric cogenerator plants; 13) qualified rehabilitation expenditures with respect to a certified historic structures; 14) construction of dwellings for the handicapped; 15) construction and rehabilitation of low income housing (in addition an enhanced credit is allowed in counties designated as having sustained moderate to severe damage from a hurricane; 16) market value of donated property to the government used for recreational access or conservation purposes; 17) property taxes paid on farm machinery by S-Corporations; 18) peat products manufacturing facilities; 19) corporations that provide telephone service to low income subscribers at reduced rates; 20) corporate farms for gleaning

crops; 20) credit of 20% the cost of purchasing or leasing non-hazardous dry cleaning equipment; and 21) construction of a renewable energy facility.

DISTRIBUTION

Revenue is deposited in the General Fund for general purposes, except for 2/31st of each previous quarter's collection, which is placed in the Public School Capital Funds. Earmarks of a portion of collections to reimburse local government for the state-mandated elimination of the business inventory tax, exemption from sales taxes of purchases made with food stamps, repeal of the intangibles tax, and partial reimbursement for the homestead exemption. Only General Fund revenue is shown above.

TAX CALENDAR

Calendar year corporations must file a tax return including tax payments by March 15 of each year for the previous year's activity. Corporations whose fiscal year does not correspond with the calendar year must file by the 15th day of the third month following the ending of its fiscal year. Declarations of estimated tax liability are due by the fifteenth day of the fourth, sixth, ninth, and twelfth month of the taxable year.

TAX ELASTICITY

Corporate tax collections are dependent on the level of corporate profits and only indirectly related to personal income. Profits fluctuate widely, increasing rapidly during expansions, and slowing or declining in periods of stagnation and recession. As a result in this volatility, the relationship between state corporate profits and state personal income is relatively weak with a $R^2 = 0.62$. Corporate profits have been very buoyant during this expansion. However, the growth will be severely constricted as the impact of the recession takes hold. Currently, the income elasticity of corporate income tax collection is strong and equal to 1.26. That is, for every 10% increase in state personal income, corporate income tax collections increases by 12.6%. However, it is anticipated that the elasticity will weaken considerably in the next couple of years.

COMPARISON WITH OTHER STATES

Forty-four states levy corporate income taxes. Michigan, which is not included in that group, levies a single business tax. Most states followed the federal definition of income. Of the 44 states levying corporate income taxes, 27 states had a higher marginal rate than North Carolina, while 16 states had a lower marginal rate.

**DISTRIBUTION OF STATE CORPORATE INCOME TAXES
AS OF JANUARY 1, 2002**

HIGHEST MARGINAL RATE	NUMBER OF STATES
Below 5.0%	2
5.0% to 5.9%	4
6.0% to 6.9%	12
7.0% to 7.9%	9
8.0% to 8.9%	7
9.0% to 9.9%	8
10.0% and above	2

Source: Federation of Tax Administrators Web Page.

NORTH CAROLINA STATUTES

105-32.1 to 105.32

ADMINISTERED BY

Department of Revenue

Fiscal Year	General Fund Collections	Annual Percent Change	Percent of General Fund Tax Collections
2000-01	123,165,443(1)	n.a.	1.0

(1) The inheritance tax was repealed January 1, 1999. Only collections from the estate tax are shown above.

BASE AND RATE

A North Carolina estate tax return and payment is due on the date the federal estate tax return and payment is due. (As a result of the state tax credit allowed by the federal estate tax, the combined federal and state estate tax liability is equal to the federal estate tax liability.) Interest accrues on any unpaid tax beginning nine months after the date of death.

DISTRIBUTION

Revenue was deposited in the General Fund for general purposes.

TAX CALENDAR

A North Carolina estate tax return and payment are due on the date the Federal estate tax return and payment are due. Interest accrues on any unpaid tax beginning nine months after the date of death.

TAX ELASTICITY

Due to the shortness of the series an elasticity was not estimated.

COMPARISON WITH OTHER STATES

All 50 states levy death taxes. Each state levies an estate tax that is equal to the state death tax credit allowed by the Federal Estate Tax Act. In addition, 11 state have a combination of the state inheritance taxes and an estate tax that is equal to the state death tax credit allowed by the Federal Estate Tax Act, while two state have individual state estate tax schedules. (Source: *State Tax Handbook, 2002*, Commerce Clearing House, Chicago, Illinois, December, 2001.)

FRANCHISE TAX

NORTH CAROLINA STATUTES

105-114 to 105-129

ADMINISTERED BY

Department of Revenue

Fiscal Year	General Fund Collections	Annual Percent Change	Percent of General Fund Tax Collections
1994-95	458,058,989	4.3	4.9
1995-96	355,918,036	-23.3	3.8
1996-97	387,811,674	9.0	3.8
1997-98	407,256,555	5.0	3.7
1998-99	409,558,340	0.6	3.4
1999-00	306,979,197(1)	-25.1	2.5
2000-01	580,431,850(2)	89.1	4.6

(1) A change in an accounting procedure resulted in \$92 million in corporate franchise tax collections to be recorded under the corporate income tax schedule.

(2) The \$92 million was transferred back from the corporate income tax schedule to the corporate franchise tax schedule.

BASE AND RATE

Franchise taxes include taxes on electric power companies; and other similar utility companies; mutual burial associations; business corporations, and cooperative organizations.

There is levied on each utility an annual charge to defray the cost of regulation. The regulatory rate is 0.1% of each public utility's North Carolina jurisdictional income.

Power and Light, Water, Sewerage, and Other Similar Public Service Companies. A 3.22% tax rate is applied to the total gross receipts resulting from the sale of power and light in the state, minus authorized exemptions and deductions of receipts derived from the sale of power and light to a vendee subject to the tax levied by G.S. 105-116 or a joint agency established under Chapter 159B of the General Statutes or a city having an ownership share in a project established under that Chapter. Water companies are taxed at 4.0% and public sewage companies are taxes at 6.0%. In addition, power and light utility services are also subject to a 3% sales tax. (See "Sales and Use Tax" in this section.)

Telephone Companies. Effective January 1, 2002 all telecommunication services are taxed under the state sales and use tax at a 6% rate. There will be no local sale and use taxes on these services.

Effective January 1, 2002, a prepaid calling card or another prepaid calling arrangement is tax under the state sales and use tax at the point of sale as tangible property.

Mutual Burial Associations. A \$15 levy is applied to associations with memberships of less than 3,000; \$20 for 3,001 to 5,000; \$25 for 5,001 to 10,000; \$30 for 10,001 to 15,000; \$35 for 15,001 to 20,000; \$40 for 20,001 to 25,000; \$45 for 25,001 to 30,000; and \$50 for 30,001 or more.

Business Corporations and Cooperative Organizations. A tax rate of \$1.50 per \$1,000 of value of the largest of the following is applied:

1. The sum of capital stock, surplus, and undivided profits apportioned to North Carolina.
2. Fifty-five percent of the appraised value of real estate and tangible personal property in North Carolina.
3. Net book value of real and tangible personal property in North Carolina.

As in the case of the corporation income tax, business corporations doing business in states other than North Carolina use a specified formula to determine the amount of the value of capital stock, surplus, and undivided profits subject to this tax. The basic formula is based on the average of three ratios, with a double weighting of the sales ratio. The ratios are: (1) property ratio, (2) payroll ratio, and (3) sales ratio. (See "Corporate Income Tax" in this section for additional information.) There is a minimum annual franchise tax of \$35.

DISTRIBUTION

The state distributes approximately 96% of the 3.09% gross receipts tax levied and collected on power and light companies to municipalities, for services that are rendered in the respective municipality. The remaining gross receipts revenue, plus revenue from all other sources under the franchise tax schedule remain with the General Fund, and are used for general purposes.

TAX CALENDAR

Franchise taxes are due on the following dates: 1) power and light companies remit franchise tax payments on the same schedule that applies to its payment of the state sales and use tax. The change is effective January 1, 2002, for taxes levied on or after that date. If the power and light company is classified as a semimonthly payer, the semimonthly payment period from the first day on the month through the 15th day of the month is due by the 25th day of that month. The semimonthly payment for the period from the 16th day of the month through the last day of the month is due by the 15th day of the following month. If the power and light company is classified as a quarterly payer,

the quarterly payment is due with the quarterly return. Regardless of the payment schedule, the power and light company must file a quarterly return. The quarterly return is due by the last day of the month following the quarter covered by the return; 2) water, sewerage, and other similar public service companies file and remit payment quarterly by the thirty-first of January, April, July, and October for the prior three months' economic activity; 3) mutual burial associations must file and remit payment by April 1 each year for membership as of March 30; and 4) business corporations and cooperative organizations must file and remit payment by the fifteenth day of the third month following the end of their income year for the amounts shown on their books for said income year.

TAX ELASTICITY

The franchise tax schedule includes several tax components. The largest components of the franchise tax are the excise tax on utility services and the corporate franchise tax. These collections depend on the level of economic activity, income, price, weather, and the value of property. Although state personal income is not the most direct determinant of these collections, it is a good proxy, as it reflects the general state of the economy. A strong relationship between personal income and franchise tax collections was found ($R^2 = 0.98$). The franchise tax is moderately responsive to economic growth, and had an estimated income elasticity of 0.90. That is, for every 10% change in personal income, franchise tax collection change by 9%.

COMPARISON WITH OTHER STATES

All states levy at least one or more of the components of North Carolina's franchise tax. Over 98.0 percent of the state's total franchise tax collections is made up by the three largest components of the tax: 1) corporate franchise tax, 2) gross receipts tax power and light companies, and 3) gross receipts tax on telephone companies.

Every state levies a tax on corporate franchises. Seventeen states levy only a flat filing charge, while all other states levy both a flat filing charge and a graduated tax. Graduated taxes are typically based on the number of shares outstanding, or the net worth of the corporation. Because of various tax bases of corporate franchise taxes, it is difficult to make a national comparison. However, it appears that North Carolina's corporate franchise tax is higher than the national average. (Source: *State Tax Handbook, 2002*, Commerce Clearing House, Inc., Chicago, Illinois, December, 2001.)

North Carolina citizens pay a 3.22% gross receipts tax on electric power. Approximately half the states levy either a gross receipts or sales tax on electric power. (Source: *State Tax Handbook, 2002*, Commerce Clearing House, Chicago, Illinois, December, 2001.)

FREIGHT CAR TAX

NORTH CAROLINA STATUTES

105-228.1 to 105-228.2

ADMINISTERED BY

Department of Revenue

Fiscal Year	General Fund Collections	Annual Percent Change	Percent of General Fund Tax Collections
1994-95	435,745	28.9	0.01
1995-96	422,026	-3.2	0.00
1996-97	495,433	17.4	0.00
1997-98	477,655	-3.6	0.00
1998-99	469,302	-1.8	0.00
1999-00	444,094	-5.4	0.00
2000-01	497,560	12.0	0.00

BASE AND RATE

A 3% levy is placed on the gross earnings of freight line companies, derived from operating or leasing freight cars, for transporting freight over any railroad lines in the state. This tax is in lieu of ad valorem taxes.

DISTRIBUTION

Revenue is deposited in the General Fund for general purposes.

TAX CALENDAR

Taxes are due by March 1 for gross earnings of the previous calendar year.

TAX ELASTICITY

The relationship between personal income and collections from the excise tax on freight cars was too weak to warrant estimating an income elasticity.

COMPARISON WITH OTHER STATES

Fifteen states levy specific and separate taxes on freight car lines. The levies are typically based on gross receipts that range from 1% to 6%. North Carolina's rate is 3%. Some states, however, levy taxes based on net earnings or on a per mile basis. (Source: *State Tax Handbook, 2002*, Commerce Clearing House, Chicago, Illinois, December, 2001.)

NORTH CAROLINA STATUTES

105-188 to 105-197

ADMINISTERED BY

Department of Revenue

Fiscal Year	General Fund Collections	Annual Percent Change	Percent of General Fund Tax Collections
1994-95	8,591,847	-34.7	0.1
1995-96	11,036,783	24.5	0.1
1996-97	12,560,940	13.8	0.1
1997-98	20,640,224	64.3	0.2
1998-99	19,334,909	-6.3	0.2
1999-00	25,085,473	29.7	0.2
2000-01	20,254,465	-19.3	0.2

BASE AND RATE

The tax is levied on the donor against all property transferred as gifts in excess of \$10,000 under the jurisdiction of the state, whether real or personal during a calendar year. Taxes are only levied on nonresidents when they give property that the state has jurisdiction.

Gifts to a spouse are exempt from taxation. The first \$10,000 in gifts per year given to each donee other than gifts of future interest in property is exempt from taxes. A donor with permission of the other spouse may use some or all of the spouse's \$10,000 annual exclusion. In addition to the \$10,000 annual exclusion, there is a \$100,000 per donor lifetime exemption to be deducted from gifts made to a Class A donee. Gifts to state or political subdivisions or nonprofit charitable, religious, or educational corporations within the state are exempt. There are four classifications of donees: 1) Spouse; 2) Class A, which includes lineal issues or ancestors, stepchildren, or adopted children; 3) Class B, which includes brothers, sisters, issues of either, or blood aunts, or uncles; and 4) Class C, which includes other relatives or unrelated persons.

RATE/BRACKET SCHEDULE
(APPLIES TO PORTIONS IN EXCESS OF EXEMPTION)

Tax Brackets		Rate for	Rate for	Rate for
		Class A Donee	Class B Donee	Class C Donee
\$	0 - 5,000	1	4	8
	5,001 - 10,000	1	5	8
	10,001 - 25,000	2	6	9
	25,001 - 50,000	3	7	10
	50,001 - 100,000	4	8	11
	100,001 - 200,000	5	10	12
	200,001 - 250,000	6	10	12
	250,001 - 500,000	6	11	13
	500,001 - 1,000,000	7	12	14
	1,000,001 - 1,500,000	8	13	15
	1,500,001 - 2,000,000	9	14	16
	2,000,001 - 2,500,000	10	15	16
	2,500,001 - 3,000,000	11	15	17
	Above 3,000,000	12	16	17

DISTRIBUTION

Revenue is deposited in the General Fund for general purposes.

TAX CALENDAR

Taxes are due by April 15 for gifts made during the prior calendar year.

TAX ELASTICITY

Gift tax collections are dependent on the net wealth, estate planning, and generosity of the donors. There is not a significant statistical relationship between collections and state personal income.

COMPARISON WITH OTHER STATES

Four states have gift taxes. They are graduated schedules that vary widely in terms of exemptions, rates, and recipient categories. (Source: *State Tax Handbook, 2002*, Commerce Clearing House, Chicago, Illinois, December, 2001.)

INDIVIDUAL INCOME TAX

NORTH CAROLINA STATUTES

105-133 to 105-159.1, 105-163.01 to 105-163.09, and 105-163.1 to 105-163.25

ADMINISTERED BY

Department of Revenue

Fiscal Year	General Fund Collections	Annual Percent Change	Percent of General Fund Tax Collections
1994-95	4,665,474,733	9.7	49.8
1995-96	4,800,034,948	2.9	50.8
1996-97	5,329,990,261	11.0	52.6
1997-98	6,028,870,217	13.1	54.4
1998-99	6,606,500,278	9.6	55.2
1999-00	7,080,106,177	7.2	57.1
2000-01	7,391,342,524	4.4	58.8

BASE AND RATE

The state conforms closely to the federal tax code. The following are some of the additions to the federal definition of taxable income: 1) interest from state and local government obligations other than those of North Carolina and its subdivisions; 2) any amount allowed as a deduction from gross income that is taxed by a separate tax under the Internal Revenue Code (IRC) such as lump sum distributions of certain employees' retirement plans; 3) state, local, and foreign income taxes allowed on federal returns only if total deductions exceed the allowed federal standard deduction; and 4) standard deduction and personal exemption inflation adjustments allowed under the IRC are not automatically authorized under North Carolina law. The following items are not included in North Carolina taxable income: 1) interest from obligations of the United States, North Carolina, or its subdivisions; 2) interest from a nonprofit educational institution organized or chartered in the state; 3) gain from the disposition of obligations issued before July 1, 1995; 4) benefits under Title II of the Social Security Act and retirement benefits under the Railroad Retirement Act of 1937; 5) refunds of state, local, and foreign income taxes; 5) maximum of \$4,000 in retirement benefits from one or more federal, state, or local retirement plans if the retiree had less than five years of service as of August 12, 1989, and all retirement benefits excluded if the retiree had more than five years service; 6) up to \$2,000 in one or more private retirement plans; and 7) up to \$35,000 in severance pay as a result of the taxpayer's involuntary termination through no fault of the taxpayer.

Each personal exemption for married filing jointly (two exemptions), head of household, single, and married filing separately taxpayers is \$2,500 for a taxpayer(s) whose federal adjusted gross income (AGI) is less than the amounts shown below, and \$2,000 if more than theses amounts.

Filing Status	Federal Adjusted Gross Income
Married Filing Joint	\$100,000
Head of Household	80,000
Single	60,000
Married Filing separate	50,000

The standard deduction for tax year 2001 is as follows: 1) married filing joint--\$5,000; 2) married filing separate--\$2,500; 3) head of household--\$4,400; and 4) single--\$3,000. For married filing joint the standard deduction is \$5,500 effective January 1, 2002, and \$6,000 effective January 1, 2003. After allowing for personal exemptions and deductions, the following rate/bracket schedule applies:

RATE/BRACKET STRUCTURE

Rate	Married Filing Joint	Married Filing Separate	Head of Household	Single
6.0%	\$ 0 - 21,250	\$ 0 - 10,625	\$ 0 - 17,000	\$ 0 - 12,750
7.0%	21,251 - 100,000	10,626 - 50,000	17,001 - 80,000	12,751 - 60,000
7.75%	100,001 - 200,000	50,001 - 100,000	80,001 - 160,000	60,001 - 120,000
8.25%(1)	200,001 and above	100,001 and above	160,001 and above	120,001 and above

(1) Effective from January 1, 2001 to December 31, 2003.

The following household related tax credits are allowed: 1) a progressive dependent care credit for qualified expenditures up to a maximum of \$2,400 of expenditures for one dependent and \$4,800 for more than one dependents; 2) \$75 for each dependent child, effective January 1, 2002, and \$100 effective January 1, 2003; 3) taxes paid on income earned in another state or country; 4) 1/3 the amount allowed by federal government for an individual who is totally and permanently disabled; 5) taxpayer's share of S-corporation income taxes paid in another state that taxes the corporation rather than the shareholder; 6) farmers who permit their crops to be gleaned; 7) donating an interest in real property to the state, local government, or other qualifying organization for certain land conservation purposes; 8) a 7% tax credit for charitable contributions in excess of 2% of adjusted gross income; and 9) a 15% tax credit up to \$350 for the premium cost on a qualified long-term care policy.

The following tax credits are allowed for business related activities: 1) for business entities using the ports at Wilmington and Morehead City; 2) a 25%, credit up to a maximum of \$50,000, for the amount invested in equity securities or subordinated debt of a qualified business; 3) for qualified rehabilitation expenditures with respect to a certified historic structures; 4) maximum of \$550 for the construction of each dwelling for the handicapped that conforms to the North Carolina Building Code; 5) investing in low

income housing; 6) maximum of \$1,000 for property taxes paid on farm machinery; 7) for the construction of a poultry composting facility; 8) certain tillage equipment used for conservation; 9) cost of purchasing or leasing non-hazardous dry cleaning equipment and 10) the cost of renewable energy property up to a maximum of \$250,000 for nonresidential property and \$10,500 for residential property.

Further, selected credits are granted to individuals for business related activities under the Bill Lee Act. These include various credits for: 1) creating qualified jobs in selected industries; 2) investing in machinery and equipment; 3) research and development expenditures; 4) cost of certain worker training; 5) investing in central administrative office property; and 6) investing in development zones.

DISTRIBUTION

Revenue is deposited in the General Fund for general purposes, except for \$95,331,927 that is dedicated to local government as a reimbursement for the repeal of the intangible personal property tax.

TAX CALENDAR

Returns and tax payments are due by April 15 for income earned during the previous calendar year.

Employers who withhold an average of less than \$250 per month are required to file and remit tax payments quarterly. Payments are due on the last day of the first month following the end of the calendar quarter for withholdings of the previous quarter. Every employer required to deduct and withhold an average of between \$250 and \$2,000 in income taxes per month, and all employers engaged in any business which is seasonal or temporary in nature, shall make returns and payments of such withholdings by the fifteenth day of the month following the month in which such amounts were withheld, except amounts withheld in December which are due on January 31. Employers who withhold an average of over \$2,000 per month are required to remit payments in accordance with the federal withholding payment schedule.

Estimated income tax payments are required if the taxpayer expects his net estimated tax after withholding and tax credits to be more than \$1,000. Estimated tax payments are due in four installments for the estimated current year's income by April 15, June 15, September 15, and January 15 (for the last quarter of the preceding year).

TAX ELASTICITY

Individual income tax collections are dependent on the level of state personal income, having an $R^2 = 0.99$. That is, 99% of the changes in personal income tax collections are associated with changes in state personal income. Further, personal income is responsive to changes in state personal income, with an estimated income elasticity of 1.53. That is,

for every 10% increase in state personal income, individual income tax collections increase by 15.3%.

COMPARISON WITH OTHER STATES

Forty-three states levy individual income taxes with three taxing only dividend and interest income. Most states follow the Federal definition of gross or taxable income. However, tax rates, deductions, and exemptions varying widely.

North Carolina relies more heavily on the individual income tax than most other states, obtaining 32% of its state and local taxes from the individual income tax in 1998-99, as compared to 23% for the nation, 25% for the 6 mid-Southeastern states (1), 22% for the 11 most populated states (2). In terms of reliance on the individual income tax, North Carolina tied for 5th place with New York and Ohio, ranked 2nd in the mid-Southeast, and tied for 1st with New York and Ohio among the 11 most populous states.

At 8.25%, North Carolina has the 6th highest marginal tax rate in the nation. North Carolina has the highest marginal rate among the 6 mid-Southeastern states, and the 2nd highest among the 11 most populous states. The current 8.25% rate is scheduled to expire on January 1, 2004, when the highest tax bracket will revert to 7.75%. Based on current rates this would be the 10th highest marginal tax rate. (Source: Federal Tax Administration Web Page, State Individual Income Tax Rates as of effective January 1, 2002.)

On a national basis, 2.6% of state personal income was devoted to state individual income tax payments, while North Carolina citizens allocated 3.4% of their income to individual income tax payments. North Carolina ranked 9th in the nation, 2nd among the 6 mid-Southeastern states, and 3rd among the 11 most populated states. In terms of per capita income the average taxpayer in the nation paid \$694 in individual income tax payments, while North Carolina taxpayers paid \$861. North Carolina ranked 13th in the nation, 2nd in the mid-Southeast, and 4th among the 11 largest states. (Source: Federal Tax Administration Web Page, for tax rates effective January 1, 2002.)

(3) Georgia, Kentucky, North Carolina, South Carolina, Tennessee, Virginia.

(4) California, Florida, Georgia, Illinois, Michigan, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Texas.

INSURANCE TAX

NORTH CAROLINA STATUTES

105-228.3 to 105-228.10, and 58-33-125

ADMINISTERED BY

Department of Revenue

Fiscal Year	General Fund Collections	Annual Percent Change	Percent of General Fund Tax Collections
1994-95	236,215,989	7.6	2.5
1995-96	242,652,553	2.7	2.6
1996-97	258,503,720	6.5	2.5
1997-98	283,763,234	9.8	2.6
1998-99	291,230,879	2.6	2.4
1999-00	273,367,118	-6.1	2.2
2000-01	305,791,331	11.9	2.4

BASE AND RATE

There are three levies against insurance companies--a gross premium tax, a regulatory charge, and license fees. The gross premium tax makes up over 98% of collections. There are two gross premium tax rates that are applied to both domestic and foreign insurance companies: 1) a 2.5% tax on the gross premiums of worker's compensation policies; and 2) a 1.9% tax on the gross premiums of all other insurance policies. An additional 1.33% is applied to the gross premiums of fire and lightning policies (except on marine and automobiles) of which 75% remains with the General Fund and 25% is dedicated for special purposes. Further, an additional 0.5% is applied to the gross premiums of fire and lightning policies that are dedicated for special purposes. The tax rate applied to the gross collections of Article 65 corporations (hospital, medical, and dental service companies) is 0.5%. Effective January 1, 2003, a 1.1% gross premium tax is applied to gross premiums of HMOs, and medical and dental service corporations. The rate is lowered to 1.0% January 1, 2004. Retaliatory provisions exist.

There is a regulatory charge paid by insurance companies, which is a percent of their premium tax liability. The current rate is 6.5%. The revenue is deposited in a special fund for the Department of Insurance in the state treasury.

Their respective North Carolina Guarantee Association covers life insurance and casualty insurance companies. Assessments are levied to cover the cost of insolvency and liquidations. A tax credit against premium tax payments equal to the amount of the assessment is allowed. The credit is taken over a five-year period in equal annual amounts.

Various registration, examination, and license fees apply to insurance companies, insurance agents, and insurance adjusters.

DISTRIBUTION

Revenue is deposited in the General Fund for general purposes, except revenue collected from the regulatory fees, and 25% of the additional 1.33% tax, and 100% of the additional 0.5% tax which are deposited in a special fund in the State Treasury. Only General Fund revenue is shown above.

TAX CALENDAR

Gross premium taxes are due by March 15 for the previous calendar year's activities, except for insurance companies with a premium tax liability of \$10,000 or more for business done in North Carolina during the immediate preceding year. Such companies must pay 33 1/3% of the premium tax liability for the previous taxable year in three installments on or before the fifteenth of April, June, and October. Regulatory fees are due at the time the gross premium tax is due. Effective for the tax year 2003 only, Article 65 corporations and health maintenance organizations are to remit two estimated tax payments with each payment being equal to 50% of their estimated premium tax liability for the 2003 taxable year. The estimated payments are due by April 15, 2003, and Jun 15, 2003. Annual company registration fees are due by March 1 and are effective July 1. Annual registration fees for brokers, agents, and adjusters are due annually by April 1.

TAX ELASTICITY

Insurance tax collections are closely related to economic activity, and thus, to changes in state personal income. It has been estimated that $R^2 = 0.93$. That is, 93% of the change in insurance tax collections is statistically related to changes in personal income. There has been a decline in the responsiveness of insurance tax collection to the growth in state personal income in recent years as a result of credits taken against assessments of the North Carolina Guarantee Associations. While the level of insolvencies and liquidations had declined for a few years, resulting in a smaller level of credits, recent insolvencies of some major companies will cause a significant increase in credits. It has been estimated that insurance tax collections have an income elasticity of 0.79. That is, for every 10% change in personal income, insurance tax collections change by 7.9%.

COMPARISON WITH OTHER STATES

Every state levies an insurance premium tax, which is paid in lieu of other taxes. The most typical premium tax rate is approximately 2%. It is difficult to compare rates between states because premium taxes vary depending on the type of policy, and, other special provisions apply. However, it appears that North Carolina's premium taxes are typical in comparison to other states. (Source: *State Tax Handbook, 2002*, Commerce Clearing House, Chicago, Illinois, December, 2001.)

PIPED NATURAL GAS TAX

NORTH CAROLINA STATUTES

105-187.40 to 105-187.46

ADMINISTERED BY

Department of Revenue

Fiscal Year	General Fund Collections	Annual Percent Change	Percent of General Fund Tax Collections
1999-00	27,715,136	(1)	0.02
2000-01	37,212,997	34.3	0.03

(1) The tax became effective July 1, 1999, and thus, collections do not reflect a full fiscal year.

BASE AND RATE

The tax is based on the monthly volume of natural gas received by the final user. The tax per therm is as follows: 1) first 200, \$0.047; 2) 201 to 15,000, \$0.035; 3) 15,001 to 60,000, \$0.024; 4) 60,001 to 500,000, \$0.015; and 5) over 500,000, \$0.03.

DISTRIBUTION

Within 75 days of the end of each quarter, municipalities receive quarterly distributions for activity within their jurisdiction. The remaining revenue is deposited in the General Fund for general purposes.

TAX CALENDAR

Tax returns are due quarterly by the last day of the month that follows the quarter covered by the return. Payments are due semimonthly in accordance with the schedule set out in G.S. 105-164.16 for semimonthly payments of sales and use taxes.

TAX ELASTICITY

The series is not long enough to estimate an elasticity.

TAX COMPARISON

A tax comparison was not undertaken.

PRIVILEGE LICENSE TAX

NORTH CAROLINA STATUTES

105-33 to 105-109; 105-187.30 to 105-187.34

ADMINISTERED BY

Department of Revenue

Fiscal Year	General Fund Collections	Annual Percent Change	Percent of General Fund Tax Collections
1994-95	64,661,218	70.4	0.7
1995-96	42,009,251	-35.0	0.4
1996-97	43,353,475	3.2	0.4
1997-98	36,648,113	-15.5	0.3
1998-99	27,588,260	-24.7	0.2
1999-00	43,828,822	58.9	0.4
2000-01	2,953,653(1)	-93.3	0.02

(1) A Court settlement resulted in large refunds to two large corporations.

BASE AND RATE

Various business license taxes are levied on persons, firms, or corporations engaging in certain businesses or professions. A 3% gross receipts tax is levied on the receipts of certain athletic, entertainment, and exhibition events. A 1% gross receipts tax is levied on the operation of motion picture shows. A privilege license tax of \$10 per gallon is levied on chlorine based dry cleaning solvents, and \$1.35 per gallon on hydrocarbon based dry cleaning solvents. Individuals engaged in various professions including physicians, attorneys, engineers, public accountants, and so forth pay a \$50 annual license fee. Privilege license taxes are also levied on banks, installment paper dealers, loan agencies, pawnbrokers, check cashing businesses, and publishers of newsprint publications.

DISTRIBUTION

Net Proceeds of the privilege license tax from dry cleaning solvents is credited to the Dry Cleaning Solvent Clean-up Fund. Other revenue is deposited in the General Fund for general purposes.

TAX CALENDAR

Taxes for annual licenses are due annually by July 1 for the upcoming fiscal year. Privilege tax on dry cleaning solvents is collected and administered in the same manner as the sales and use taxes. Gross receipts taxes on entertainment and motion pictures are due by the 10th day after the end of each month.

TAX ELASTICITY

As a result of changes in the tax base an elasticity was not estimated.

COMPARISON WITH OTHER STATES

All states have occupation or business license taxes or fees. The occupations upon which the levies are placed and the individual rates vary significantly within and between states. (Source: *State Tax Handbook, 2002*, Commerce Clearing House, Chicago, Illinois, December 2001.)

SALES AND USE TAX

NORTH CAROLINA STATUTES

105-164.1 to 105-164.44A

ADMINISTERED BY

Department of Revenue

Fiscal Year	General Fund Collections	Annual Percent Change	Percent of General Fund Tax Collections
1994-95	2,781,683,390	7.9	29.7
1995-96	2,958,132,813	6.4	31.3
1996-97	3,127,673,443	5.7	30.6
1997-98	3,255,372,048(1)	4.1	29.3
1998-99	3,376,206,664(2)	3.7	28.2
1999-00	3,354,897,708(3)	-0.7	27.1
2000-01	3,435,558,577	2.4	27.3

- (1) The state sales tax on food consumed at home was reduced from 4% to 3%. The 2% local tax remains.
- (2) The state sales tax on food consumed at home was reduced from 3% to 2%. The 2% local tax remains.
- (3) The state sales tax on food consumed at home was eliminated. The 2% local tax remains.

BASE AND RATE

Effective October 16, 2001 to July 1, 2003 a 4 1/2% state tax is imposed on the retail sale, lease, or rental to consumers of tangible personal property not specifically exempt or subject to taxation at a reduced rate. The tax rate is reduced to 4% (the rate that existed prior to October 16, 2001) thereafter. Certain services such as rental of accommodations to transients, cleaning services provided by dry cleaners, laundries and similar type businesses, and charges for burial are subject to the 4 1/2% rate of state tax. All items that are subject to the 4 1/2% state sales tax are also subject to all local option sales taxes, which are presently at a 2% rate, except in Mecklenburg that has a 2 1/2% rate. Many items such as prescription medicine, certain medical devices, and certain items used in manufacturing, processing, distributing and other business activities are exempt from the tax. The stated list of exempt items is not all-inclusive.

Short-term leases of motor vehicle (less than 365 continuous days) are subject to the 8% alternate highway use tax, and accounted for under the General Fund.

Spirituous liquor is subject to a 6% state tax.

A 5% tax is levied on the gross receipts of satellite and cable TV services.

A 3% rate of state tax is levied on the retail price of new and used airplanes, boats, locomotives, railroad cars, mobile offices, and mobile classrooms with a maximum levy of \$1,500. Revenue from the long-term rental or leases of motor vehicles is subject to the 3% highway use tax.

Gross receipts derived by a utility from the sale of electricity are subject to the 3% rate of state sales tax, in addition to the 3.22% rate of tax imposed under the franchise tax schedule. Gross receipts derived from telecommunication services are subject to a 6% tax. Municipalities receive a quarterly distribution of 18.26% of the net proceeds of net tax collected subject to statutory adjustments.

The sale of electricity to farmers, manufacturers, and coin laundries are taxed at 2.83%.

Manufactured housing is taxed at a 2% rate with a \$300 ceiling per article.

Sales of coal, coke, fuel oil, and other combustibles, other than electricity or piped natural gas, to manufacturing industries or manufacturing plants are subject to the 1% rate, provided such combustibles are not used for residential heating purposes. These same combustibles are subject to the 1% rate of tax when sold to farmers for use by them for any farm purpose, including aqua farming, other than preparing food, heating a dwelling, or other household purposes. The 1% rate also applies to mill machinery, mill machinery parts, and accessories when sold to manufacturing industries and plants for use in the manufacturing process, with a maximum tax of \$80 per article. Sales to farmers of machines, and machinery and parts, or accessories therefore for use in planting, cultivating, harvesting, or curing farm crops, or in the production of dairy products, eggs, or animals are subject to the 1% rate of tax with the \$80 maximum per article.

Food items sold for home consumption are exempt from the state sales tax base. However, these items are still subject to the 2% local government sales tax. The federal government and the North Carolina Department of Transportation are exempt from state and local sales and use taxes. Exemptions also apply to railroad companies' purchase of diesel fuel used by locomotives and railroad cars, and the sale of newspapers through vending machines and home deliveries.

State government agencies receive a refund of local sales and use taxes paid on their direct purchases for use. Certain governmental entities as defined by statute, as well as hospitals, educational institutions, churches, orphanages, and charitable and religious institutions not operating for a profit, and certain homes for the aged, sick, or infirm may obtain refunds. Refunds apply for machinery and equipment purchased by certain types of businesses, such as air courier services, data processing, manufacturing, and warehousing that are located in an enterprise tier 1 or tier 2 area.

A three-day sales tax holiday each August is enacted beginning in the 2002 for clothing, school supplies, sport or recreational equipment, computers and printers, and educational software. There is a \$100 cap per item of clothing and school supply, a \$50 cap per item of sport or recreational equipment, and a \$3,500 cap per computer.

DISTRIBUTION

Revenue is deposited in the General Fund for general purposes, except for a small dedication to the Wildlife Resource Fund, and 60% of the state sales tax on dry cleaning and laundry services which is dedicated to the Dry Cleaning Solvent Cleanup Fund. In addition to the state sales tax, county governments levy a 2% tax on items, which the state taxes at the 4 1/2% rate, except Mecklenburg County, which has a 2 1/2% levy. The local tax base also includes food items sold for home consumption (See "Sales and Use Tax: Local Government" in the local government section for more information.) Only General Fund revenue is shown above.

TAX CALENDAR

For merchants with a monthly sales and use tax liability of at least \$100, but less than \$10,000, taxes are due monthly by the fifteenth of each month on sales that took place the previous month. Businesses with monthly sales and use liabilities of \$10,000 or more are required remit taxes due for the first 15 days of the month by the twenty-fifth, and taxes due for the last half of the month by the tenth of the following month. A sales and use tax return covering both periods is due by the 20th of the following month. Persons who consistently owe sales or use taxes of less than \$100 per month may file reports quarterly within 15 days after the end of the calendar year quarter. Telecommunication, and power, and light companies are required to file returns and remit taxes on the same threshold basis.

TAX ELASTICITY

Sales tax collections are directly related to the level of retail sales. Since state personal income is the major determinant of retail sales, there is a close statistical relationship between income and revenue ($R^2 = 0.99$). That is 99% of the changes in sales and use tax collections are related to changes in state personal income. It is estimated that the sales and use tax is responsive to changes in personal income with an income elasticity of 1.01. That is, for every 10% change in personal income, sales and use tax collections change by 10.1%.

COMPARISON WITH OTHER STATES

Forty-five states levy sales and use taxes. As of July 2001, state sales tax rates ranged from 2.9% to 7%, with a median rate of 5%. The basic state sale tax rate for North Carolina is 4.5%. (It is scheduled to revert to 4% on July 2, 2003.) Thirty-three states have a higher state sales tax rates, one the same, and ten states lower. (Source: Federation of Tax Administrator's Web Page.)

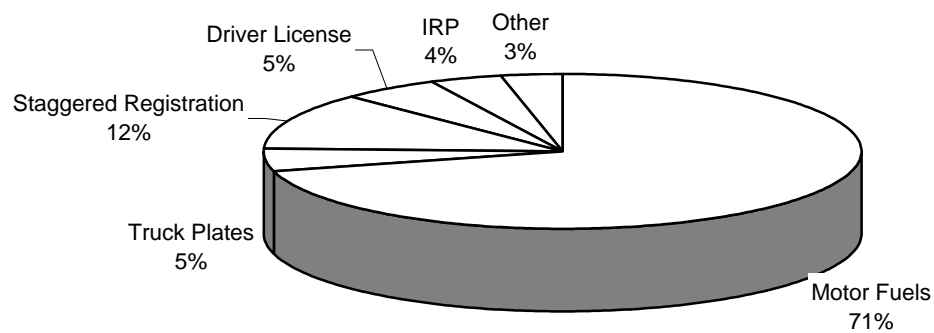
Additional local sales and use taxes are levied in 33 states including North Carolina. The maximum local tax rates ranged from 0.6% to 6%, with a median rate of 2.2%. North Carolina has a 2% local sales tax except for Mecklenburg County that has a 2.5% rate. Counties are authorized to increase the rate to 2.5% (3% in Mecklenburg County) on July

1, 2003. The tax is scheduled to increase to 2.5% on July 2, 2003.) Information was found on 27 states. For the largest city in these states, tax rates ranged from 0.5% to 5.31%, with a median of 2%. The combined state and (maximum) local sales and use tax rates ranged from 4% to 9.75%, with a medium rate of 7%. North Carolina has a 6.5% rate. Twenty-seven states have a higher rate, one the same, and seventeen lower. (Source: Federation of Tax Administrators' Web Page.)

Sixteen states levy a state sales tax on food consumed at home. Prescription medicine is exempt in all states, but Illinois that levies a 1% tax. Certain nonprescription drugs are exempt in 12 states, while Illinois levies a 1% tax. Nonprescription drugs are subject to the state and local sales tax in North Carolina. (Source: **State Tax Handbook 2002**, Commerce Clearing House, Chicago, Illinois, December, 2001, pp. 333-334 and 339 – 340.)

Highway Fund Taxes

CHART 4
NORTH CAROLINA HIGHWAY FUND TAX COLLECTIONS
(2000-01)



Motor Fuels	\$880,757,443
Truck Plate	60,570,817
Staggered Registration	147,014,471
Driver License	66,172,057
International Registration Plan (IRP)	47,494,993
Other Licenses and Fees	43,063,231
Total	<hr/> \$ 1,245,073,012

DEALER AND MANUFACTURER LICENSES

NORTH CAROLINA STATUTES

20-285 through 20-289

ADMINISTERED BY

Department of Transportation

Fiscal Year	Highway Fund Collections	Annual Percent Change	Percent of Highway Fund Tax Collections
1994-95	1,071,510	19.5	0.1
1995-96	1,157,249	8.0	0.1
1996-97	1,133,250	-2.1	0.1
1997-98	1,163,695	7.7	0.1
1998-99	1,204,073	3.5	0.1
1999-00	1,448,912	20.3	0.1
2000-01	1,145,552	-20.9	0.1

BASE AND RATE

Annual license fees are levied on motor vehicle manufacturers, dealers, distributors, distributor branches, wholesalers, and salesmen at the following rates: 1) motor vehicle dealers, distributors, distributor branches and wholesalers--\$50 for each principle place of business; 2) manufacturers--\$100, and for each factory branch--\$70; and 3) motor vehicle sales representatives, factory representatives, or distributor representatives--\$10, and a change of employers--\$5; The following license holders may operate as a motor vehicle dealer without obtaining a motor vehicle dealer's license or paying an additional fee: manufacturer, factory branch, distributor, and distributor branch. Any of these license holders who operate as a motor vehicle dealer may sell motor vehicles at retail only at an established salesroom.

DISTRIBUTION

Revenue is deposited in the Highway Fund for highway purposes.

TAX CALENDAR

Licenses expire on June 30, and applications and fees must be received prior to that date.

TAX ELASTICITY

There is not a significant statistical relationship between personal income and tax collections.

COMPARISON WITH OTHER STATES

A comparison with other states was not taken.

DRIVERS LICENSES

NORTH CAROLINA STATUTES

20-7 to 20-37

ADMINISTERED BY

Department of Transportation

Fiscal Year	Highway Fund Collections	Annual Percent Change	Percent of Highway Fund Tax Collections
1994-95	58,017,462	11.0	5.9
1995-96	68,439,883	18.0	6.7
1996-97	68,124,912	-0.4	6.4
1997-98	70,094,961	2.9	6.4
1998-99	62,278,971	-11.2	5.6
1999-00	58,944,575	-5.4	5.1
2000-01	66,172,057	12.3	5.3

BASE AND RATE

There are several bases and rates for the issuance or re-issuance of operator licenses. These include: 1) the basic operator's license (Class C) which is issued for a fee of \$2.50 per year; and 2) operator licenses for large vehicles restricted to intrastate usage (Class A or B) which is issued for a fee of \$3.75 per year. The renewal period is five years. A limited learner's permit and a limited provisional license for persons less than 18 years old is issued for a fee of \$10. The following fees are levied for Commercial Driver Licenses (CDL): 1) Class A, B, or C is issued for a fee of \$10 per year. The renewal period is five years; 2) application fee, \$20; 3) endorsement fees, \$125 per endorsement per year (this also includes a motorcycle endorsement for either regular or CDL licenses).

In addition the following fees apply: 1) duplicate license, \$10; 2) copy of license record for period up to three years, \$5; 3) a seven year extract copy of a driver license record, \$5; 4) a certified true copy of complete license record, \$7; 5) a fee of \$10 for a non-operator's identification card which is effective for a period of four to eight years; 6) a restoration fee of \$25 to restore a license revoked, suspended, or canceled for motor vehicle law violations, and \$50 if revoked for driving under the influence; and 7) a \$50 charge when a licensee fails to surrender a driver's license that is revoked.

DISTRIBUTION

Revenue is deposited in the Highway Fund for highway purposes, except \$25 of the \$50 fee if a license is revoked for driving under the influence. This revenue is deposited in the General Fund.

TAX CALENDAR

License fees and other charges are due at the time of purchase of the license or service.

TAX ELASTICITY

License fees are fixed levies, and hence, do not grow as rapidly as personal income. Collections are related to the size, composition and growth of population. During the past decade collections have increased at about one-quarter the rate of personal income. However, as a result of the phase-in of renewals from 4 to 5 years, there is not a significant statistical relationship between collections and personal income.

COMPARISON WITH OTHER STATES

North Carolina's driver's license tax is a multifaceted levy consisting of several components. Comparative information was only obtained on operator's license fees. All 50 states levied operator's license fees. Operator's licenses are typically for a four-year period, with only a handful of states (including North Carolina) having a different license period. Converting these license fees to an annual basis, it was found that rates ranged from \$1.50 to \$8. The average fee in the nation is \$3.82. North Carolina's levy converts to an annual fee of \$2.50. Thirty-four states had a higher levy than North Carolina, nine the same, and six lower. Two states in the mid-Southeast had lower rates than North Carolina, one the same, and two higher (1). Of the most populated states (2), one had a lower rate, one the same, and eight higher.

DISTRIBUTION OF DRIVERS' LICENSE FEES: 2001

Fees	Number of States
\$1.00 - \$1.99	3
2.00 - 2.99	14
3.00 - 3.99	11
4.00 - 4.99	10
5.00 and Above	12

Source: Federal Highway Administration web page, 2002.

(1) Georgia, Kentucky, North Carolina, South Carolina, Tennessee, and Virginia.

(2) California, Georgia, Florida, Illinois, Michigan, Ohio, Pennsylvania, New Jersey, New York, North Carolina, Texas.

FINANCIAL SECURITY RESTORATION FEE

NORTH CAROLINA STATUTES

20-309, 20-7(i)

ADMINISTERED BY

Department of Transportation

Fiscal Year	Highway Fund Collections	Annual Percent Change	Percent of Highway Fund Tax Collections
1994-95	5,366,328	3.4	0.6
1995-96	5,916,500	10.3	0.6
1996-97	5,311,473	-10.2	0.5
1997-98	5,720,651	7.7	0.5
1998-99	7,003,646	22.4	0.6
1999-00	8,445,869	20.6	0.7
2000-01	10,263,535	21.5	0.8

BASE AND RATE

A \$50 civil penalty fee is charged to maintain a license plate when there has been a lapse of insurance coverage, provided action is taken within 10 days. If no action is taken and the plate is revoked, a \$50 restoration fee is charged when the vehicle is re-licensed after a 30-day plate surrender period.

DISTRIBUTION

Revenue deposited in the Highway Fund for highway purposes.

TAX CALENDAR

Payment is made at the time of purchase.

TAX ELASTICITY

There is a modest statistical relationship between personal income and collections, with an $R^2 = 0.71$. That is, 71% of the change in collections is statistically related to changes in personal income. Collections are moderately responsive to personal income, and have an elasticity of 1.08. That is for every 10% change in personal income restoration fees increase by 10.8%.

COMPARISON WITH OTHER STATES

A comparison with other states was not taken.

GASOLINE INSPECTION TAX

NORTH CAROLINA STATUTES

119-4 to 119-22

ADMINISTERED BY

Department of Revenue

Fiscal Year	Highway Fund Collections	Annual Percent Change	Percent of Highway Fund Tax Collections
1994-95	11,227,469	4.5	1.2
1995-96	11,689,883	4.1	1.1
1996-97	11,676,667	-0.1	1.1
1997-98	11,804,079	1.1	1.1
1998-99	12,491,183	5.8	1.1
1999-00	12,278,488	-1.7	1.1
2000-01	12,803,620	4.3	1.0

BASE AND RATE

A tax of 1/4 cent per gallon levied on all petroleum products used as motor fuel is deposited in the Highway Fund. A similar tax levied on aviation gasoline, jet fuel, and a non-highway use motor fuel goes into the General Fund.

DISTRIBUTION

This revenue is deposited in both the Highway and General Funds. Inspection taxes on fuels used on the highways are deposited into the Highway Fund. After deducting funds to administer and enforce the provisions of the inspection laws and the cost of collection, the balance of the revenue is credited in equal amounts to the Commercial Leaking Petroleum Underground Storage Cleanup Fund and the Non-commercial Leaking Underground Petroleum Storage Tank Cleanup Fund. Even though these funds are earmarked to Funds outside the Highway Fund, for accounting purposes, they are considered Highway Fund revenue. Approximately 50% of Highway Fund revenue from the inspection fee is so earmarked. Further, inspection taxes levied on fuels not used on the highways are deposited in the General Fund. Only Highway Fund revenue is shown above.

TAX CALENDAR

Taxes are paid by wholesale distributors of motor fuel (gasoline and diesel) to the major oil companies at the terminal rack. Taxes are paid by wholesale distributors of alternative fuels (propane and compressed natural gas--CCNG) directly to the Department of Revenue. Taxes on motor fuels are due by the twenty-second of the month for motor fuels, and by the twenty-fifth of the month for alternative fuels for the previous month's activity.

TAX ELASTICITY

The gasoline inspection tax is relatively unresponsive to changes in personal income. For further information see "Motor Fuel Tax" in the Highway Fund section.

COMPARISON WITH OTHER STATES

As of January 2001, 18 states levied gasoline inspection taxes with rates ranging from 0.0008 cent per gallon to three cents per gallon. Three states have higher fees than North Carolina, one the same, eleven lower, and two unknown. (Source: *Highway Taxes and Fees, 1998*, Federal Highway Administration, Washington, D.C., 2001.)

INTERNATIONAL REGISTRATION PLAN

NORTH CAROLINA STATUTES

20-86.1, 20-87.1, and 20-85

ADMINISTERED BY

Department of Transportation

Fiscal Year	Highway Fund Collections	Annual Percent Change	Percent of Highway Fund Tax Collections
1994-95	38,346,814	5.3	3.9
1995-96	44,255,511	15.4	4.3
1996-97	41,479,027	-6.3	3.9
1997-98	41,890,137	1.0	3.8
1998-99	50,791,801	21.3	4.6
1999-00	54,694,488	7.7	4.8
2000-01	47,494,993	-13.2	3.8

BASE AND RATE

Operators of vehicles engaging in interstate traffic find it advantageous to enter the International Registration Plan (IRP). Vehicles licensed under the IRP are taxed according to the regulations governing the plan and are not taxed under the other vehicle categories. Under the IRP, each North Carolina based vehicle is taxed according to the following formula:

$$\text{Fees} = \frac{A}{B} \times C$$

where: A = total mileage driven in North Carolina plus total mileage driven in non-IRP states

B = total mileage driven

C = the appropriate levy computed from the weight and rate schedule

In addition, each vehicle registered in another IRP state and apportioned into North Carolina is taxed according to the same formula, except "A" now represents only the total mileage driven in North Carolina. The weight and rate schedule under this plan follows:

SCHEDULE OF WEIGHTS AND RATES
(Per 100 lbs. of Gross Weight)

Weight	Rate Per lb.
Up to 4,000 lbs.	\$ 0.46
4,001 to 9,00 lbs.	0.63
9,001 to 13,000 lbs.	0.78
13,001 to 17,000 lbs.	1.06
Over 17,000 lbs.	1.20

Vehicles in the "over 17,000" pound category pay an additional tax of \$3.00. Replacement plates for all vehicles are \$9.

DISTRIBUTION

Revenue is deposited in the Highway Fund for highway purposes.

TAX CALENDAR

The annual renewal period for the purchase of plates is between January 1 and February 15 for the current calendar year.

TAX ELASTICITY

IRP collections depend on the number of registered trucks, which is related to economic conditions. Although personal income is a good proxy the statistic relationship was not strong. Collections were very volatile recent as a result of administrative difficulties in other states.

COMPARISON WITH OTHER STATES

In 2002, 10 Canadian provinces and the 48 contiguous states participated in the International Registration Plan (IRP). Of the 48 states that are in the IRP (for five axle tractor trailers) the registration fee ranges from \$120 to \$3,218, and had a national average of \$1,241. North Carolina's tax rate was \$973, and ranked 36th. North Carolina ranked 5th among the 6 mid-Southeastern states, and 8th among the 11 most populated states. (Source: International Registration Plan Section, North Carolina Department of Transportation, Raleigh, 2002; and *Highway Fees and Taxes, 2002*, Federal Highway Administration, U.S. Department of Transportation, Washington, D.C., 2001.)

NORTH CAROLINA STATUTES

105-430 to 105-449.01, 105-449.60 to 105-449.139

ADMINISTERED BY

Department of Revenue

Fiscal Year	Highway Fund Collections	Annual Percent Change	Percent of Highway Fund Tax Collections
1994-95	669,096,603	0.5	68.5
1995-96	697,048,503	4.2	67.7
1996-97	730,926,335	4.9	68.8
1997-98	762,551,945	4.4	69.3
1998-99	762,888,007	0.2	69.6
1999-00	781,017,763	2.4	68.2
2000-01	867,815,163	11.1	69.7

BASE AND RATE

As of January 1, 2002 an excise tax of 24.5 cents per gallon is levied on all motor fuel sold, distributed or used in the state. The tax is composed of a 17.5 cents per gallon levy, plus 7% of the average wholesale price of motor fuels. The wholesale tax is adjusted every six months, and cannot fall below 3.5 cents per gallon tax. It should be noted that in addition to these levies a 1/4 cent per gallon inspection tax is in effect. These revenues are recorded under a separate schedule. See "Gasoline Inspection Tax" in this section.

Fuel sold to the U.S. Government, state government agencies, or used in public or charter school transportation (including fuel for automobiles owned by school boards) is exempt from the tax. A refund of the excise tax less one cent per gallon is given to counties, municipal corporations, volunteer fire departments, sheltered workshops recognized and approved by the Department of Human Resources, volunteer rescue squads, purchases of fuel not used on the highway, taxicabs transporting fare-paying passengers, private nonprofit organizations operating motor vehicles under contract or at the express designation of a unit of local government, and off-highway use of special mobile equipment. Further, there is a refund of 33 1/3% of the average tax paid less one cent per gallon for the tax year on fuel used in concrete mixing vehicles, solid waste compacting vehicles, commercial vehicles that deliver and spread mulch, soil and similar materials, and certain agricultural and tank delivery vehicles.

DISTRIBUTION

Of these collections 1/2 cent per gallon is dedicated as follows: 1) Commercial Leaking Petroleum Underground Storage Tank Cleanup Fund--19/32; 2) Noncommercial Leaking Petroleum Underground Storage Tank Cleanup Fund--3/32; and 3) Water and Air Quality Account--10/32. Of the remaining revenue 75% remains in the Highway Fund, and 25% is allocated to the Highway Trust Fund. Only Highway Fund revenue is shown above.

TAX CALENDAR

Taxes are paid by wholesale distributors of motor fuel (gasoline and diesel) on purchases made from the major oil companies at the terminal rack. Taxes are paid by wholesale distributors of alternative fuels (propane and compressed natural gas--CCNG) directly to the Department of Revenue. Taxes are due by the twenty-second of the month for motor fuels, and by the twenty-fifth of the month for alternative fuels for the previous month's activity.

TAX ELASTICITY

Motor fuel tax collections are related to fuel consumption and the price of motor fuels. Fuel consumption depends on the number of vehicle miles driven and vehicle efficiency. Fuel prices fell throughout most of the past decade, although they rose in the last two years. There is a relatively strong relationship between collections and state personal income ($R^2 = 0.93$). That is, 93% of the change in motor fuel tax collections is related to changes in state personal income. Because the tax is predominately a per-unit levy, and as a result of the decline in motor fuel prices, collection growth lags behind the growth of personal income. It is estimated that the motor fuel collections have an income elasticity of 0.43. That is, for every 10% increase in personal income, motor fuel tax collections increase by 4.3%.

COMPARISON WITH OTHER STATES

All states levy motor fuel taxes on gasoline, diesel fuel, and gasohol. In addition, several states have different levies on jet and other fuels. Sales taxes are applied on motor fuels in addition to the excise tax in nine states, and separate local motor fuel taxes are applied in selected jurisdictions in nine states.

As of January 1, 2002, state excise taxes on gasoline ranged from 7.5 cents per gallon to 29 cents per gallon. The average state gasoline tax was 20.3 cents per gallon. North Carolina's rate was 24.5 cents per gallon, and was the 10th highest tax in the nation. The average motor fuels tax in the 6 mid-Southeastern states was 17.2 cents per gallon, and the average for the eleven most populated states was 18.9 cents per gallon. North Carolina had the highest tax rate among the 6 mid-Southeastern states, and ranked 2nd the 11 most populated states.

**STATE GASOLINE TAX RATES FOR THE UNITED STATES,
MID-SOUTHEASTERN, ELEVEN MOST POPULATED STATES,
NORTH CAROLINA AND SURROUNDING STATES,
AS OF January 1, 2002**

State	Tax Rate
United States	20.3
Mid-Southeastern	17.2
Eleven Largest States	18.9
North Carolina	24.5
Surrounding States	
Georgia	7.5
Kentucky	16.4
North Carolina	24.5
South Carolina	16.0
Tennessee	21.4
Virginia	17.5

Source: Federation of Tax Administrators, 2002.

OVERWEIGHT/SIZE PERMITS

NORTH CAROLINA STATUTES

20-119

ADMINISTERED BY

Department of Transportation

Fiscal Year	Highway Fund Collections	Annual Percent Change	Percent of Highway Fund Tax Collections
1994-95	1,774,048	31.4	0.2
1995-96	1,974,662	11.3	0.2
1996-97	2,064,440	4.6	0.2
1997-98	2,196,868	6.4	0.2
1998-99	2,439,250	11.0	0.2
1999-00	2,488,424	2.0	0.2
2000-01	5,261,816	111.5	0.4

BASE AND RATE

Upon receipt of application, the state may issue at its discretion special permits granting permission to operate overweight/oversized motor vehicles on North Carolina highways. Annual permit fee for moving house trailers are \$200, and for other commodities is \$100. For a single trip a permit is \$12, while an annual permit is \$50 per vehicle.

DISTRIBUTION

Revenue is deposited in the Highway Fund for highway purposes.

TAX CALENDAR

Revenue is received at the time the permit is issued.

TAX ELASTICITY

Collections depend on the level of truck traffic that is dependent on the state of the economy. There is a strong statistical relationship between personal income and collections, with a $R^2 = 0.95$. That is 95% of the changes in collections is statistically related to changes in personal income. Collections have grown rapidly during the past decade, and have an estimated elasticity of 1.81%. That is, for every 10% change in personal income, collections change by 18.1%.

COMPARISON WITH OTHER STATES

A comparison with other states was not taken.

NORTH CAROLINA STATUTES

20-118

ADMINISTERED BY

Department of Transportation

Fiscal Year	Highway Fund Collections	Annual Percent Change	Percent of Highway Fund Tax Collections
1994-95	5,264,423	-1.4	0.5
1995-96	5,377,171	2.1	0.5
1996-97	5,867,612	9.1	0.6
1997-98	8,021,271	36.7	0.7
1998-99	8,069,143	0.6	0.7
1999-00	8,453,829	4.8	0.7
2000-01	13,263,785	56.9	1.1

BASE AND RATE

For each violation of the license, permit, or axle grouping weight as established by statute, the owner must pay to the Division of Motor Vehicles, a penalty, per violation, for each pound of weight in excess of the maximum limit.

The following penalty schedule applies:

Amount of Pounds Over Maximum	Penalty Per Pound
First 1000 lbs.	2 cents
Second 1000 lbs.	4 cents
Additional Pounds	10 cents

DISTRIBUTION

Revenue is deposited in the Highway Fund for highway purposes.

TAX CALENDAR

Payments are due at the time the penalty is issued.

TAX ELASTICITY

There is not a significant statistical relationship between personal income and tax collections.

COMPARISON WITH OTHER STATES

A comparison with other states was not taken.

PROCESS SERVICE FEES**NORTH CAROLINA STATUTES**

20-48.c

ADMINISTERED BY

Department of Transportation

Fiscal Year	Highway Fund Collections	Annual Percent Change	Percent of Highway Fund Tax Collections
1994-95	3,713,939	6.6	0.4
1995-96	3,815,570	2.7	0.4
1996-97	3,552,819	-6.9	0.3
1997-98	3,890,284	9.5	0.4
1998-99	4,600,685	18.3	0.4
1999-00	4,972,022	8.1	0.4
2000-01	5,406,987	8.8	0.4

BASE AND RATE

A \$50 fee is levied if the Division of Motor Vehicles has to give the taxpayer notice of the revocation of either the driver license or registration plate.

DISTRIBUTION

The revenue is deposited in the Highway Fund for highway purposes.

TAX CALENDAR

Revenue is due at time of process.

TAX ELASTICITY

There is a strong statistical relationship between personal income and collections, with a $R^2 = 0.89$. That is 89% of the changes in collections is statistically related to changes in personal income. Collections have kept pace with personal income during the past decade, and have an estimated elasticity of 1.01%. That is, for every 10% change in personal income, collections change by 10.1%.

COMPARISON WITH OTHER STATES

A comparison with other states was not taken.

REGISTRATION FEES

NORTH CAROLINA STATUTES

20-85

ADMINISTERED BY

Department of Transportation

Fiscal Year	Highway Fund Collections	Annual Percent Change	Percent of Highway Fund Tax Collections
1994-95	6,824,024	-39.9	0.7
1995-96	9,342,022	36.9	0.9
1996-97	2,394,959(1)	-74.4	0.2
1997-98	2,454,399	2.5	0.2
1998-99	2,488,747	1.4	0.2
1999-00	2,687,772	8.0	0.2
2000-01	2,594,868	-3.5	0.2

(1) The remaining portion of the certificate of title registration fees was dedicated to the Highway Trust Fund.

BASE AND RATE

Charges are rendered for the following items: 1) salvage titles, \$10; 2) failure to transfer title within the required time, \$10; and 3) certified copy of a title, \$4. Collections under this schedule also consist of 1/7 of the \$35 fee for each application for certificate of title, with the remaining revenue going Highway Trust Fund. See "Title and Registration Fee" in the Highway Trust Fund section.

DISTRIBUTION

This revenue is used for highway purposes.

TAX CALENDAR

Taxes are paid at the time of title and registration purchase.

TAX ELASTICITY

As a result of the changing tax base a tax elasticity was not taken.

COMPARISON WITH OTHER STATES

A comparison with other states was not taken.

SAFETY EQUIPMENT PROCESS FEE

NORTH CAROLINA STATUTES

20-183.1 through 20-183.8, 20-128.2, 20-385

ADMINISTERED BY

Department of Transportation

Fiscal Year	Highway Fund Collections	Annual Percent Change	Percent of Highway Fund Tax Collections
1994-95(1)	4,471,972	-30.4	0.5
1995-96	3,736,421	-16.5	0.3
1996-97	3,434,382	- 8.1	0.3
1997-98	3,918,772	14.1	0.4
1998-99	4,087,029	4.3	0.4
1999-00	4,255,866	4.1	0.4
2000-01	4,010,440	-5.8	0.3

(1) In order to comply with a Federal mandate, revenue from emission inspections is placed in an interest bearing account to support the emission program.

BASE AND RATE

Inspection stations are licensed by the state. Annually inspections are required for all motor vehicles that are registered in North Carolina and use North Carolina's highways and streets. After passing inspection an inspection sticker is affixed on the windshield. Safety equipment inspection fees total \$9.25 per vehicle inspected. Of that total, \$8.25 is for the inspection and remains with the inspection station. The remaining \$1.00 is for the inspection sticker with \$0.75 going to the State Highway Fund, \$0.15 earmarked to the Department of Insurance for the Volunteer Rescue/EMS Fund, and \$0.10 dedicated to the Rescue Squad Workers' Relief Fund. Inspections are required for both safety and exhaust systems in Cabarrus, Durham, Forsyth, Gaston, Guilford, Mecklenburg, Orange, Union, and Wake counties. The inspection fee for inspecting both safety and exhaust standards is \$19.40. Of that amount, \$17 is for the inspection and remains with the inspection station. The remaining \$2.40 is for the inspection sticker with \$1.80 going to the emission program, \$0.35 allocated to the Division of Air quality, and \$0.25 distributed to the Department of Insurance for the Volunteer Rescue/EMS Fund, and \$0.10 for the Rescue Squad Relief Fund.

DISTRIBUTION

Revenue from safety inspections is divided between the inspection station and the state as stated under "Base and Rate." In addition, revenue from emission inspections is placed

under a separate account, and is used to support the emission program. Only Highway Fund revenue is shown above.

TAX CALENDAR

Revenue is collected at the time of the inspection.

TAX ELASTICITY

The level of collections is dependent on the number of vehicles. There is a strong statistical relationship between personal income and collections, with an $R^2 = 0.94$. That is, 94% of the change in collections is related to changes in personal income. Collections growth lags behind personal income, with an elasticity of 0.80. That is, for every 10% change in personal income, collections change by 8.0%.

COMPARISON WITH OTHER STATES

A comparison with other states was not taken.

STAGGERED REGISTRATION FEES

NORTH CAROLINA STATUTES

20-66, 20-85, 20-87

ADMINISTERED BY

Department of Transportation

Fiscal Year	Highway Fund Collections	Annual Percent Change	Percent of Highway Fund Tax Collections
1994-95	120,819,634	3.8	12.4
1995-96	124,989,515	3.5	12.1
1996-97	131,363,098	5.1	12.4
1997-98	134,245,132	2.2	12.2
1998-99	139,114,535	3.7	12.4
1999-00	145,624,292	4.7	12.7
2000-01	147,014,471	1.0	11.8

BASE AND RATE

All private passenger hauling vehicles (automobiles and motorcycles) and all private hauler vehicles licensed for 4,000 pounds (private pick-up trucks and vans) are required to enter the staggered registration plan. A fee of \$20 is levied on private passenger cars of 15 passengers or less, and a fee of \$23 is levied on private passenger cars of more than 15 passengers. Private pick-up trucks and vans licensed for 4,000 pounds pay a license plate fee of \$21.50. Private passenger motorcycles pay a license plate fee of \$9, except when designed to transport property or additional passengers, and the tax is then \$16. There is a \$1 processing charge for registrations by mail.

DISTRIBUTION

Revenue is deposited in the Highway Fund for highway purposes.

TAX CALENDAR

All registrations are for a twelve-month period from the date of the vehicle's initial registration.

TAX ELASTICITY

Fees are directly related to the number of motor vehicles registered and indirectly related to state personal income. However, the relationship between collections and state personal income is strong ($R^2 = .96$). That is, 96% of the changes in collections are statistically related to changes in state personal income. Collections grow at a slower rate

the state personal income since they are on a per unit basis, and are not responsive to inflation. It is estimated that collections have an income elasticity of 0.52. That is, for every 10% change in state personal income, collections change by 5.2%.

COMPARISON WITH OTHER STATES

All 50 states levy automobile registration fees. Fees may be based on vehicle weight, number of passengers carried, engine size, horsepower, retail price, or some combination of the above. Rates often vary within a state depending on the vehicle. Tax rates for the typical automobile ranged from \$8 to \$125. The median tax rate for the nation was \$35. Thirty-nine states had a higher automobile registration fee than North Carolina, 3 including North Carolina had a rate of \$20, and 8 had lower rates. The average rate among the 6 mid-Southeastern states⁽¹⁾ and the 11 most populated states⁽²⁾ was \$21 and \$32 respectively. Three of the mid-Southeastern states had higher rates than North Carolina, one the same, and one lower. North Carolina tied for the lowest rate among the largest states. A comparison of registration fees for small trucks and motorcycles was not undertaken. (Source: *Highway Taxes and Fees, 2002*, Federal Highway Administration, U.S. Department of Transportation, Washington, D.C., 2001.)

(3) Georgia, Kentucky, North Carolina, South Carolina, Tennessee, and Virginia.

(2) California, Georgia, Florida, Illinois, Michigan, Ohio, Pennsylvania, New Jersey, New York, North Carolina, Texas.

TRUCK LICENSE PLATE FEES**NORTH CAROLINA STATUTES**

20-85 and 20-88

ADMINISTERED BY

Department of Transportation

Fiscal Year	Highway Fund Collections	Annual Percent Change	Percent of Highway Fund Tax Collections
1994-95	48,846,251	4.9	5.1
1995-96	50,786,525	4.0	4.9
1996-97	54,046,254	6.4	5.1
1997-98	53,526,079	-1.0	4.9
1998-99	56,781,624	6.1	5.1
1999-00	59,519,842	4.8	5.2
2000-01	60,570,817	1.8	4.9

BASE AND RATE

For the purpose of taxation, the determination of weight is based on combined gross vehicle weight. A minimum fee of \$17.50 for a farm vehicle and \$21.50 for a non-farm vehicle is levied under this schedule.

Vehicles in the truck category consist of private vehicles such as vans and pick-up trucks over 4,000 pounds and commercial trucks. Commercial trucks generally carry their own products both interstate and intrastate, but do not operate under the authority of either the Interstate Commerce Commission or the North Carolina Utilities Commission. They basically include service trucks, milk trucks, soft drink bottle trucks, beer trucks, and others. There is no separate commercial truck license plate.

Vehicles in the truck category are subject to taxation according to the following rate and weight schedule:

SCHEDULE OF WEIGHTS AND RATES
(Per 100 lbs. of Gross Weight)

Weight/Rate Bracket	Farm	Non Farm
Up to 4,000 lbs.	\$ 0.23	\$ 0.46
4,001 to 9,000 lbs.	0.29	0.63
9,001 to 13,000 lbs.	0.37	0.78
13,001 to 19,000 lbs.	0.51	1.06
Over 19,000 lbs.	0.58	1.20

An additional \$3 charge per plate is levied

In addition, camping trailers and house trailers are subject to a flat \$7 annual registration fee. Other trailers are subject to a flat annual fee of \$10. A multi-year license plate for trailers or semi-trailers is available for \$75. Wreckers fully equipped weighing 7,000 pounds or less pay \$75 for a plate and those over 7,000 pounds pay \$148.

Replacement plates for all vehicles are \$10.

DISTRIBUTION

Revenue is deposited in the Highway Fund for highway purposes.

TAX CALENDAR

The annual renewal period for the purchase of plates is between January 1 and February 15 for the current calendar year.

TAX ELASTICITY

Truck plate fee collections are per unit levies, and thus, grow at a slower rate than personal income. There is a significant statistical relationship between collections and personal income, with $R^2 = 0.96$. That is, 96% of the change in collections is related to changes in personal income. It is estimated that collections have an income elasticity of 0.57. That is, for every 10% change in personal income collections change by 5.7%.

COMPARISON WITH OTHER STATES

All states levy truck license plate fees. Most states have a fee schedule based on the empty weight of the vehicles. All states grant preferential tax treatment to farm vehicles. The typical registration fee for single-unit non-farm trucks was \$176 for the nation, \$159 among the 6 mid-Southeastern states (1), and \$177 among the 11 most populated states (2). North Carolina's rate was \$188, giving it a ranking of 20th for the nation, 3rd in the

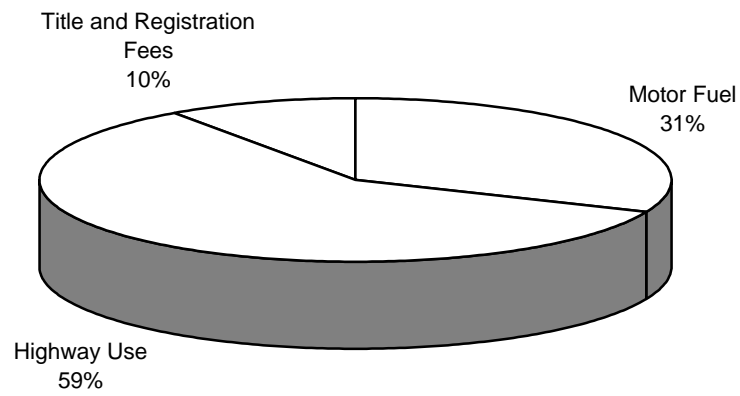
mid-Southeast, and 5th among the largest states. The typical registration fee for single-unit farm trucks was \$89 for the nation, \$54 among the 6 mid-Southeastern states, and \$85 among the 11 most populated states. North Carolina's rate was \$90, giving it a ranking of 15th for the nation, 3rd in the mid-Southeast, and 4th among the largest states. For large trucks (five axle tractor trailers) see, International Registration Plan in this section. (Source: *Highway Taxes and Fees, 2002*, Federal Highway Administration, U. S. Department of Transportation, Washington, D.C., 2001.)

(1) Georgia, Kentucky, North Carolina, South Carolina, Tennessee, and Virginia.

(2) California, Georgia, Florida, Illinois, Michigan, Ohio, Pennsylvania, New Jersey, New York

HIGHWAY TRUST FUND TAXES

CHART 5
NORTH CAROLINA HIGHWAY TRUST FUND TAX COLLECTIONS
(2000-01)



Motor Fuels	\$289,594,678
Highway Use	545,166,755
Title and Registration	90,643,816

Total	\$925,405,249

HIGHWAY USE TAX

NORTH CAROLINA STATUTES

105-187.1 to 105-187.12

ADMINISTERED BY

Department of Transportation

Fiscal Year	Highway Trust Fund Tax Collections	Annual Percent Change	Percent of Highway Trust Fund Tax Collections
1994-95	364,648,618	10.3	54.9
1995-96	397,273,096	9.0	56.2
1996-97	407,577,335	2.6	55.3
1997-98	453,226,656	11.2	57.0
1998-99	489,513,431	8.0	58.7
1999-00	545,268,353	11.4	60.6
2000-01	545,166,755	-0.0	58.9

BASE AND RATE

A 3% tax is levied on the retail sales of most non-commercial motor vehicles titled in North Carolina. The tax on commercial vehicles is 3% with a maximum tax of \$1,000. Recreational vehicles weighing less than 26,000 pounds are subject to a \$1,500 ceiling, while those weighing more than 26,001 are subject to a \$1,000 cap. Motor vehicles purchased in other states and titled in North Carolina are also subject to the tax. The retail price of the vehicle is the net purchase price after trade.

The tax rate on the gross receipts from the long-term (365 continuous days or more) lease or rental of a motor vehicle is 3%, and is subject to the same maximum taxes. Trade-in allowances are permitted. The tax rate on short-term (less than 365 continuous days) lease or rental of a motor vehicle is 8%. Short-term rental or leases are accounted for under the sales and use tax in the General Fund.

Exemptions include: 1) gifts between spouses or parent and child; 2) transfers by will or intestacy; 3) distribution of marital property as a result of divorce; 4) sales to a motor vehicle dealer for resale; 5) transfer to the insurer of a vehicle because the vehicle is a salvage vehicle; 6) transfer of vehicle to a handicapped person from the Department of Human Resources after the vehicle has been specially equipped; 7) transfer of a vehicle to a local board of education for use in drivers' education; 8) transfer because of a change in the owner's name; and 9) fire trucks and rescue vehicle purchased by volunteer departments. Partial exemptions, with a maximum tax of \$40 applies when a certificate of title is issued as a result of transfer of a motor vehicle: 1) to a secured party who has a perfected security interest in the motor vehicle; and 2) to a partnership, limited liability company, or corporation as an incident to the formation of the company, when no gain

arises from the transfer. A maximum tax of \$150 applies when a title is issued for an out-of-state vehicle that at the time of applying for the certificate of title, is or has been titled in another state for at least 90 days.

DISTRIBUTION

Of total collections, \$170 million will be transferred annually to the General Fund. For the fiscal year 2002-03, an additional \$2.4 million will be transferred to the General Fund, and this amount will be adjusted annually based on the increase or decrease of highway use tax collections. The remaining revenue will be deposited in the Highway Trust Fund for highway purposes.

TAX CALENDAR

Taxes are due upon application for a certificate of title. The lessor may make an irrevocable option at the time of titling to pay tax on the gross lease or rental receipts instead of on the retail sales price of a motor vehicle.

TAX ELASTICITY

Sales of motor vehicles are strongly related to the level of personal income, having an $R^2 = 0.96$. That is 96% of changes in collections are related to personal income. Motor vehicle sales have been very strong in North Carolina in the last few years, resulting in a tax elasticity of 1.43. That is, for every 10% change in personal income, collections change by 14.3%.

COMPARISON WITH OTHER STATES

Forty-six states levy a state sales or excise taxes on automobiles. (Alaska levies a local tax.) In lieu of a general sales and use tax, North Carolina levies a highway use tax on the retail sale price of motor vehicles. Only two states, North Carolina and South Carolina have a tax ceiling. The median state tax rate for the nation was 5%. Three states had a lower state tax rates than North Carolina, one the same, while 41 had higher rates. North Carolina had the lowest rate of the 6 mid-Southeastern states (1) and of the 11 most populated states (2). (Source: *State Tax Handbook, 2002*, Commerce Clearing House, Chicago, Illinois, December 2001.)

(5) Georgia, Kentucky, North Carolina, South Carolina, Tennessee, Virginia.

(6) California, Florida, Georgia, Illinois, Michigan, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Texas.

LIEN RECORDING FEES

NORTH CAROLINA STATUTES

20-85

ADMINISTERED BY

Department of Transportation

Fiscal Year	Highway Trust Fund Tax Collections	Annual Percent Change	Percent of Highway Trust Fund Tax Collections
1994-95	2,567,991	-4.3	0.4
1995-96	2,607,998	1.6	0.4
1996-97	2,443,177	-6.3	0.3
1997-98	2,292,215	-6.2	0.3
1998-99	2,335,851	1.9	0.3
1999-00	2,141,461	-8.3	0.2
2000-01	2,139,360	-0.1	0.2

BASE AND RATES

There is a \$10 charge for each application for recording a supplementary lien, and a \$10 charge for each application for removing a lien from a certificate of title.

DISTRIBUTION

Revenue is deposited in the Highway Trust Fund for highway purposes.

TAX CALENDAR

Taxes are paid at the time of purchase.

TAX ELASTICITY

There is not a significant statistical relationship between personal income and collections.

COMPARISON WITH OTHER STATES

A comparison with other states was not taken.

MOTOR FUEL TAX

NORTH CAROLINA STATUTES

105-430 to 105-449.01, 105-449.1 to 105-449.139

ADMINISTERED BY

Department of Revenue

Fiscal Year	Highway Trust Fund Tax Collections	Annual Percent Change	Percent of Highway Trust Fund Tax Collections
1994-95	223,032,201	0.5	33.6
1995-96	232,662,410	4.3	32.9
1996-97	243,731,232	4.8	33.1
1997-98	254,604,049	4.5	32.0
1998-99	254,740,680	0.1	30.5
1999-00	260,744,650	2.4	29.0
2000-01	289,594,678	11.1	31.3

BASE AND RATE

As of January 1, 2002 an excise tax of 24.5 cents per gallon was levied on all motor fuels sold, distributed or used in the state. The tax was composed of a 17.5 cents per gallon levy, plus 7% of the average wholesale price of motor fuels. The wholesale tax is adjusted every six months, and cannot fall below 3.5 cents per gallon tax. After earmarking 1/2 cents per gallon for other purposes, the Highway Trust Fund receives 25% of the remaining motor fuel tax collections. For further information see "Motor Fuels Tax" in the Highway Fund section.

DISTRIBUTION

All motor fuel tax collections that are placed in the Highway Trust Fund are used for highway construction.

TAX CALENDAR

See "Motor Fuels Tax" in the Highway Fund section.

TAX ELASTICITY

See "Motor Fuels Tax" in the Highway Fund section.

COMPARISON WITH OTHER STATES

See "Motor Fuels Tax" in the Highway Fund section.

TITLE AND REGISTRATION FEES

NORTH CAROLINA STATUTES

20-85

ADMINISTERED BY

Department of Transportation

Fiscal Year	Highway Trust Fund Tax Collections	Annual Percent Change	Percent of Highway Trust Fund Tax Collections
1994-95	74,508,293	13.8	11.2
1995-96	74,418,598	-0.1	10.5
1996-97	83,274,171	11.9	11.3
1997-98	84,669,551	1.7	10.7
1998-99	87,916,661	3.8	10.5
1999-00	91,079,907	3.6	10.1
2000-01	88,504,456	-2.8	9.6

BASE AND RATE

Charges are rendered for issuance of certificates of title, transfer of registration, and replacement of registration plate fees according to the following schedule: 1) each application for certificate of title, \$35; 2) each application for duplicate or corrected certificate of title, \$10; 3) each application of reprocessor for certificate of title, \$10; 4) each transfer of registration, \$10; 5) each set of replacement registration plates, \$10; and 6) each application for duplicate registration certificate, \$10.

In lieu of the regular \$35 charge for certificate of title, there is a \$50 charge for one-day service.

DISTRIBUTION

Revenue is deposited in the Highway Trust Fund for highway purposes.

TAX CALENDAR

Taxes are paid at the time of title and registration purchase.

TAX ELASTICITY

Title fees are directly related to the number of new and used vehicle sales, and vehicle transfers. Although economic conditions play a role, the number of titles registered depend strongly on demographic factors. However, the relationship between collections and state personal income is quite strong ($R^2 = 0.91$). That is, 91% of the changes in

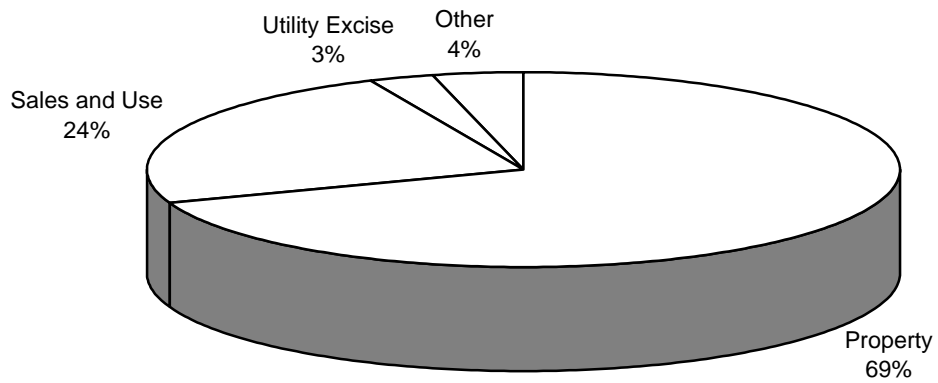
collections are related to changes in state personal income. It is estimated that collections have an income elasticity of 0.86. That is, for every 10% change in personal income, collections change by 8.6%.

COMPARISON WITH OTHER STATES

A comparison with other states was not taken.

Local Government Taxes

CHART 6
NORTH CAROLINA LOCAL TAX COLLECTIONS
RECEIVED BY LOCAL GOVERNMENT
(2000-01)



Property	\$4,877,350,974
Sales and Use	1,668,957,994
Utility Excise	194,039,708
Other	271,887,909

Total	\$7,012,236,585

EXCISE TAX ON BEER AND WINE--LOCAL SHARE

NORTH CAROLINA STATUTES

105-113.68 to 105-113.89

ADMINISTERED BY

Department of Revenue

Fiscal Year	Local Government Tax Receipts	Annual Percent Change	Percent of Local Government Tax Receipts
1994-95(1)	n.a.	n.a.	n.a.
1995-96	22,451,744	7.1	0.5
1996-97	23,210,614	3.4	0.4
1997-98	23,599,549	1.7	0.4
1998-99	24,424,343	3.5	0.4
1999-00	25,236,935	3.3	0.4
2000-01	26,003,945	3.0	0.4

(1) Prior to fiscal year 1989-90, local government received an earmarked portion of the state excise tax on beer and wine. From 1989-90 through 1994-95, the earmarking provisions were replaced by a fixed annual General Fund appropriation. Effective July 1, 1995, the earmarking provisions were reinstated.

BASE AND RATE

The state levies an excise tax of 21 cents per liter on unfortified wine, 24 cents per liter on fortified wine, and 53.177 cents per gallon on beer. (This is equivalent to 5 cents per can.). The state earmarks 23.75% of the excise tax on malt beverages, 62% of the excise tax on unfortified wine, and 22% of the excise tax on fortified wine to local jurisdictions in which such sales are allowed.

DISTRIBUTION

The amount of the local share distributed to each county and municipality is determined on the basis of population in the areas where such sales are permitted. The revenue allocated to local government can be used for general purposes. The General Fund retains the remaining revenue.

TAX CALENDAR

Wholesalers and importers of beer and wine must file returns including monthly tax payments by the fifteenth day of the month for the previous month's activity. The local

share of the wine and beer excise tax is allocated from collections received during the fiscal year ending March 31. The portion going to each county and municipality is computed and distributed to localities May 30.

TAX ELASTICITY

The sales of beer and wine are related to the composition of population, taste, price, and income. Personal income is used as a proxy for these variable. Tax collections were strongly related to the level of personal income, as depicted by a computed R^2 of 0.98. That is, 98% of changes in tax collections are related to changes in personal income. Growth in collections is more closely related to demographics, and is not very responsive to changes in personal income. The estimated tax elasticity was 0.53. That is, for every 10% change in personal income, tax collections change by 5.3%.

COMPARISON WITH OTHER STATES

See “Alcoholic Beverage Taxes” in the General Fund section.

EXCISE TAX ON CONVEYANCES

NORTH CAROLINA STATUTES

105-228.28 to 105-228.36

ADMINISTERED BY

County Governments

Fiscal Year	Local Government Tax Receipts	Annual Percent Change	Percent of Local Government Tax Receipts
1994-95	20,576,251	5.1	0.4
1995-96	22,899,557	11.3	0.4
1996-97	25,966,185	13.4	0.4
1997-98	30,311,638	16.7	0.5
1998-99	34,787,017	14.8	0.5
1999-00	35,951,673	3.4	0.5
2000-01	35,350,847	-1.2	0.5

BASE AND RATE

A tax rate of \$1.00 on each \$500, or fraction thereof, is levied on the value of each deed, instrument, or writing by which any interest in real property is conveyed to another person. The tax is payable by the transferor to the register of deeds in the county in which the property is situated.

This tax is imposed on transactions conveying an interest in real estate located in North Carolina. The following conveyances are exempt from the tax: 1) operation of law; 2) lease for a term of years; 3) will, intestacy, or gift; 4) merger or consolidation; 5) instruments securing indebtedness; 6) transfers by a governmental unit; and 7) transfers where no consideration in property or money is due or paid by the transferee to the transferor.

DISTRIBUTION

Each county administers the tax. One-half the net proceeds remains with the respective county and is used for general purpose, and one-half of the net proceeds are remitted to the Department of Revenue. Of the non-county portion of the proceeds, a county may retain 2% as compensation for the county's cost in collecting and remitting the state's share of the tax. Of the remainder 75% is credited to the Parks and Recreation Trust Fund, and 25% to the Natural Heritage Trust Fund.

TAX CALENDAR

The tax is paid at the time of the transfer by the transferor to the county registrar of deeds.

TAX ELASTICITY

Real estate transactions are influenced by personal income and demographic factors. There is a strong relationship between collections and personal income as depicted in an R^2 of 0.98. That is, 98% of the change in tax collections is related to personal income. As a result of the strong real estate market, collections are very responsive to changes in personal income, with a tax elasticity of 1.77. That is, for every 10% increase in personal income, tax collections expand by 17.7%.

COMPARISON BETWEEN STATES

Information was not found on land transfer taxes.

LAND TRANSFER TAX

NORTH CAROLINA STATUTES

Not part of General Sessions, citations in Session Laws.

ADMINISTERED BY

County Governments

Fiscal Year	Local Government Tax Receipts	Annual Percent Change	Percent of Local Government Tax Receipts
1994-95	4,234,488	3.9	0.1
1995-96	4,605,676	8.8	0.1
1996-97	4,964,941	7.8	0.1
1997-98	6,340,428	27.7	0.1
1998-99	7,418,315	17.1	0.1
1999-00	8,601,850	16.0	0.1
2000-01	8,899,408	3.5	0.1

BASE AND RATE

A maximum tax rate of 1% is imposed on the sale value of any private real estate transaction or the value of interest conveyed in such a transaction if the lease is at least 10 years long.

DISTRIBUTION

Seven counties levy the tax. In all cases, tax proceeds are placed in special capital reserve funds.

TAX CALENDAR

Taxes are paid at the time of the transaction.

TAX ELASTICITY

Each year additional counties levy this tax. As a result of the constantly increasing tax base an elasticity was not measured.

COMPARISON WITH OTHER STATES

Information was not found on land transfer taxes.

LIQUOR BY-THE-DRINK TAX

NORTH CAROLINA STATUTES

18B-2, 15

ADMINISTERED BY

Local Alcoholic Beverage Control Boards

Fiscal Year	Local Government Tax Receipts	Annual Percent Change	Percent of Local Government Tax Receipts
1994-95	5,442,892	3.9	0.1
1995-96	5,698,879	4.7	0.1
1996-97	6,056,704	6.3	0.1
1997-98	6,392,073	5.5	0.1
1998-99	6,925,829	8.4	0.1
1999-00	7,535,084	8.8	0.1
2000-01	7,816,809	3.7	0.1

BASE AND RATE

With voter approval or special legislation, localities are permitted to sell liquor by the drink in qualifying restaurants, hotels, convention centers, community theaters, sports clubs, tour boats, and private clubs. A tax of \$20 per four liters (of which \$9 is allocated to local government) is levied on liquor purchased for sale by the drink. Liquor must be purchased at ABC stores. As of January 1, 2002, 66 cities and 33 counties approved liquor by-the-drink sales.

DISTRIBUTION

Of the \$20 liquor by-the-drink levy, \$1 is earmarked for the Department of Human Resources for alcoholic rehabilitation, \$10 goes to the state General Fund, and \$9 remains with local government. The local proceeds remain at the county or municipal ABC stores, and are distributed to counties and municipalities as ordinary profits of the ABC stores. Only the local share is shown above.

TAX CALENDAR

Profits are distributed quarterly to the respective counties and municipalities.

TAX ELASTICITY

There is a significant statistical relationship between tax collections and personal income as depicted in a computed $R^2 = 0.97$. That is, 97% of changes in collections are statistically related to changes in personal income. Liquor by-the-drink collections have an estimated income elasticity of 0.89. That is, for every 10% change in personal income

collections change by 8.9%. Collections have not been adjusted for new local jurisdictions levying the tax. Adjusting for these additions would lower the elasticity.

COMPARISON WITH OTHER STATES

Information was not found on land transfer taxes.

PRIVILEGE LICENSE TAX

NORTH CAROLINA STATUTES

105-33 to 105-109, 153A-152, 160A-211.

ADMINISTERED BY

Counties and Municipalities

Fiscal Year	Local Government Tax Receipts	Annual Percent Change	Percent of Local Government Tax Receipts
1994-95	54,738,764	7.9	1.1
1995-96	61,725,545	12.8	1.3
1996-97	65,691,336	6.4	1.3
1997-98	71,071,269	8.2	1.3
1998-99	76,813,950	8.1	1.3
1999-00	84,883,723	10.5	1.3
2000-01	84,835,843	-0.1	1.2

BASE AND RATE

A county may levy privilege licenses taxes on trades, occupations, professions, businesses, and franchises to the extent authorized under Schedule B (state privilege license tax) of the Revenue Act, and by other acts of the General Assembly. The type of business a county may tax and the amount of the tax or tax rate is typically stated under Schedule B.

Except as otherwise provided in the law, a city may levy privilege license taxes on all trades, occupations, professions, businesses, and franchises operating within the city. Municipalities that tax businesses are listed under Schedule B in a similar manner to counties.

DISTRIBUTION

Revenue is used for general purposes.

TAX CALENDAR

Licenses are for a 12-month period. Upon election of the local unit, the license year ends either May 31 or June 30. Payments are due on or before the end of the license year.

TAX ELASTICITY

License taxes are usually fixed levies on specified economic activities. Collections vary as businesses enter or leave specified fields (assuming no change in the law). These tax collections are related to the level of business activity as reflected by personal income ($R^2 = 0.99$). That is, 99% of the changes in collections are statistically related to

changes in state personal income. One would expect these taxes to be relatively inelastic (not very responsive to changes in personal income) since they are typically per unit levies, and depend on the number of business establishments. However, it was estimated that collections have an income elasticity of 1.29. That is, for every 10% change in personal income, privilege license taxes increase by 12.9%. The high elasticity implies the establishment of new businesses and fee increases.

COMPARISON WITH OTHER STATES

A comparison with other states was not undertaken.

NORTH CAROLINA STATUTES

105-271 to 105-395

ADMINISTERED BY

The Department of Revenue supervises administration. Assessment of locally appraised property and collection of taxes is conducted by counties and municipalities.

Fiscal Year	General Fund Tax Receipts	Annual Percent Change	Percent of Local Government Tax Receipts
1994-95	3,267,967,425	8.6	68.4
1995-96	3,396,393,368	3.4	68.8
1996-97	3,620,553,362	6.6	68.7
1997-98	3,899,767,938	7.7	69.1
1998-99	4,145,561,429	6.3	68.7
1999-00	4,538,764,544	9.5	70.6
2000-01	4,877,350,974	7.5	69.5

DISTRIBUTION

In fiscal year 2000-01, 69% of property taxes were collected by counties, 27% by municipalities, and 4% by special jurisdictions. Localities are free to spend the revenue as they see fit.

BASE AND RATE

Real estate is required to be reappraised at least every eight years. However, many counties have more frequent appraisals. Other property including machinery, equipment, and vehicles is appraised annually. Railroads and public utility companies are appraised annually by the Department of Revenue. The Machinery Act imposes uniform assessment and collection procedures throughout the state. All property, except registered motor vehicles (registration date is the listing date), is assessed annually as of January 1 at 100% of appraised value. Unless specifically exempted, all real and personal property located in the state is subject to the tax. The following property is exempt from taxation: 1) property of the United States, North Carolina, and its political subdivisions; 2) personal property used for personal purposes except motor vehicles, mobile homes, boats, and airplanes; 3) business inventories; 4) dogs owned as pets; 5) real and personal property of religious, nonprofit charitable hospitals, educational, scientific, or literary organizations used for such purposes; 6) real and personal property used for air or water pollution abatement facilities; 7) real and personal property used exclusively for the prevention or reduction of cotton dust within a textile plant; 8) property held for export for a period of four years; 9) imported personal property awaiting further shipment; 10) personal property of nonresident servicemen; 11) excludes either \$20,000 of appraised value of real and personal property, or an exclusion of 50% of the tax value if the property is valued at greater than \$20,000 of elderly or permanently

disabled persons with a maximum gross income of \$18,000. Effective July 1, 2003 the limit is increased annually by the Social Security Insurance cost of living adjustments; 12) special nuclear material held for processing or in the process of delivery; 13) tangible personal property imported from outside the United States or produced within the United States and held in a Foreign Trade Zone for approved purposes; 14) cargo containers and container chassis used for the transportation of cargo by ocean-going vessels; 15) special nuclear material held for processing; 16) short term leases of motor vehicles (less than 365 days, instead subject to a 1.5% gross receipts tax); 17) motor vehicles owned by a disabled veteran and altered to accommodate a service connected disability; 18) Continuing Care Retirement Communities; and 19) intangible property. In addition, there is a decreasing annual schedule of exemptions for the first five taxable years on Brownfield sites.

Tax rates vary between counties and between municipalities within counties. In 2000-01, the average countywide rate was 66.0 cents per \$100 of appraised value, and the average municipality rate was 49.0 cents per \$100 of appraised value. The average combined municipal and county rate for property located within a municipality was \$1.15 per \$100 of appraised value.

TAX CALENDAR

Property is listed with the county assessor during the month of January. Taxes are based on the assessed value as of January 1 for the year in question. Property taxes are due on September 1 for the current fiscal year and interest is added if taxes are not paid by January 5.

TAX ELASTICITY

Within certain political constraints, property tax rates are set annually to meet the budget needs. Collections reflect both increases in the quantity and value of property and the willingness of governments to impose the tax. Thus, collections are only partially related to economic events. However, it is found that collections have a strong statistical relationship to changes in personal income ($R^2 = 0.99$). That is, 99% of the changes in collections are statistically related to changes in state personal income. Further, it is estimated that property taxes were modestly responsive to changes in personal income with an income elasticity of 1.05. That is, for every 10% change in personal income, property tax collections change by 10.5%. The measured elasticity reflects increases in property values, plus a willingness on the part of local officials to raise tax rates.

COMPARISON WITH OTHER STATES

Property taxes are levied by localities in all states, with a wide dispersion of appraisal and assessment rates. North Carolina relies less heavily on the property tax and has a lower property tax burden than most states. Property taxes consisted of 29% of state and local tax levies in the United States, while consisting of 24% in the 6 mid-Southeastern states (1), and 31% in the 11 most populated states (2). In North Carolina property taxes consisted of 21% of state and local tax collections. As of fiscal year 1998-99, the average local property tax paid per capita in the United States was \$881, while the per capita

property tax burden for the mid-Southeastern was \$608, and stood at \$973 for the 11 largest states. North Carolina's per capita property tax burden was \$569. North Carolina ranked 38th nationally in per capita property tax burden. Of the 6 mid-Southeastern states, North Carolina ranked 4th. Of the 11 most populated states, North Carolina had the lowest per capita property tax burden. As a percent of personal income, the average citizen devoted 3.2% of their personal income to property tax payments nationally, 2.5% in the mid-Southeast, 3.4% in the 11 most populated states, and 2.3% for North Carolina. North Carolina ranked 41st in the nation, 4th in the mid-Southeast, and had the lowest property tax burden as a percent of personal income of the 11 largest states. (Source: Governmental Finances in 1998-99, U.S. Department of Commerce, Bureau of Census, Washington, D.C., 2001.

- (1) Georgia, Kentucky, North Carolina, South Carolina, Tennessee, Virginia.
- (2) California, Florida, Georgia, Illinois, Michigan, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Texas.

ROOM OCCUPANCY TAX

NORTH CAROLINA STATUTES

Not part of the General Statutes. Citations in Session Laws.

ADMINISTERED BY

County Governments

Fiscal Year	General Fund Tax Receipts	Annual Percent Change	Percent of Local Government Tax Receipts
1994-95	52,421,128	16.7	1.1
1995-96	58,288,091	11.2	1.2
1996-97	64,371,992	10.4	1.2
1997-98	71,390,103	10.9	1.3
1998-99	80,356,954	12.6	1.3
1999-00	86,400,408	7.5	1.3
2000-01	88,923,768	2.9	1.3

BASE AND RATE

A maximum tax rate of 6% may be imposed by a county, municipality, or combination of both on the rental of any room, lodging, or similar accommodations subject to the state sales tax. The tax does not apply to accommodations furnished by charitable, educational, or religious organizations when furnished for nonprofit purposes. As of fiscal 2000-01, 63 counties and 31 municipalities levied such taxes.

DISTRIBUTION

Counties and municipalities place various restrictions on the use of the tax proceeds; however, a portion of the proceeds is usually dedicated for programs encouraging tourism.

TAX CALENDAR

Taxes are paid at the time of the transaction.

TAX ELASTICITY

Each year additional counties levy this tax. As a result of the constantly increasing tax base an elasticity was not measured.

COMPARISON WITH OTHER STATES

Information is not available on room occupancy taxes.

NORTH CAROLINA STATUTES

105-164.1 to 105-164.44A and 105-463 to 105-474

ADMINISTERED BY

Department of Revenue

Fiscal Year	General Fund Tax Receipts	Annual Percent Change	Percent of Local Government Tax Receipts
1994-95	1,141,219,593	9.7	23.9
1995-96	1,231,938,883	8.0	25.0
1996-97	1,314,993,108	6.7	24.9
1997-98	1,390,151,275	5.7	24.6
1998-99	1,505,297,284	8.3	24.9
1999-00	1,575,410,429	4.7	24.5
2000-01	1,668,957,994	5.9	23.8

BASE AND RATE

Counties may levy the local government sales and use tax on those items included under the state's 4 1/2% levy. All 100 counties levy the full 2% in local government sales taxes. Mecklenburg County levies an additional 1/2% sales and use tax that is dedicated for public transportation. Effective July 1, 2003, local government can levy an additional 1/2% sales tax. Local governments will lose certain state reimbursement, and the temporary additional 1/2% state sales tax will be eliminated. More information on the sales and use tax can be found in the General Fund section.

DISTRIBUTION

The proceeds of the local government sales tax, less the cost of administration, are returned quarterly to the counties. Effective July 1, 2003 the local distribution will be monthly. The revenue from the first 1% of the local government sales tax is returned to the counties from which the tax was collected. The revenue from each of the two 1/2% local government sales taxes is allocated to the counties on a per capita basis. Effective July 1, 2003 there will be another 1/2% local option sales tax. Half the additional collections will be returned to the counties on a per capita basis, and half on the basis of point of sale. In April of each year, each county board of commissioners elects one of two methods to determine the distribution of revenue between the county and its municipalities. The two methods are: 1) the net proceeds of the county are divided by the sum of population of the county and its municipalities to determine a per capita amount. This amount is multiplied by the county's total population and each municipality's population to determine the allocation to each area; and 2) the net proceeds may be distributed between the county and its municipalities in proportion to the total amount of ad valorem taxes levied by each during the year fiscal year preceding the year of distribution.

TAX CALENDAR

Proceeds from the local government sales and use tax are distributed to local governments quarterly reflecting the prior quarter's collections. For further information see "Sales and Use Tax" in the General Fund section.

TAX ELASTICITY

Sales tax collections are directly related to the level of retail sales. Since state personal income is the major determinant of retail sales, collections are closely related to the level of personal income, as depicted by a $R^2 = 0.99$. That is 99% of the changes in sales and use tax collections are related to changes in state personal income. It is estimated that the sales and use tax is responsive to changes in personal income with an income elasticity of 1.10. That is, for every 10% change in personal income, sales and use tax collections change by 11%.

COMPARISON BETWEEN STATES

Localities in 33 states levy sales taxes. In most states, some discretion is allowed as to the level of the local levy. The maximum local sales tax in each state ranges from 0.6% to 6%. The average maximum local sales tax for the nation was 2.6%. For more information see "Sales and Use Taxes" under the General Fund section. (Source: *Comparison of State and Local Retail Sales Taxes*, July 2001, Federal Tax Administrator's Web Page, 2002.

UTILITY EXCISE TAX

NORTH CAROLINA STATUTES

105-114 to 105-129.1

ADMINISTERED BY

Department of Revenue

Fiscal Year	Local Government Tax Receipts	Annual Percent Change	Percent of Local Government Tax Receipts
1994-95(1)	121,579,749	n.a.	n.a.
1995-96	136,399,500	12.4	2.8
1996-97	148,932,981	9.0	2.8
1997-98	152,200,121	2.2	2.7
1998-99	161,117,265	5.9	2.7
1999-00	49,669,239(2)	-69.2	0.8
2000-01	194,039,708(3)	290.7	2.8

(1) Prior to fiscal 1989-90, local government received an earmarked portion of the state excise tax on the gross receipts from intra-state services of gas, power and light, and telephone companies. From 1989-90 through 1994-95, the earmarking provisions were replaced by a fixed annual General Fund appropriation. Effective July 1, 1995, the earmarking provisions will be reinstated.

BASE AND RATE

A 3.22% state excise tax is levied on the gross receipts of power and light companies, in addition to a 3% state sales tax. Of the 3.22% state excise tax rate, 3.09 percentage points (or 96% of collections) are distributed to the respective municipalities within which these services take place.

Effective January 1, 2002 all telecommunication services previously tax under the gross receipts franchise tax, will be taxed under the state Sales and Use tax at a 6% rate. Approximately 75% of collections for services originating in municipalities are distributed to the respective municipality.

DISTRIBUTION

The respective municipality can use the revenue earmarked to municipalities for general purposes.

TAX CALENDAR

Gas, power and light, and telephone companies file quarterly returns within 30 days after the first of July, October, January, and April, for the prior quarter's economic activity.

The municipal share will be determined and distributed shortly after, and is received by September 15, December 15, March 15, and June 15.

TAX ELASTICITY

Utility sales are dependent on the state of the economy which personal income is a good proxy ($R^2 = 0.98$). That is, 98% of the change in tax collections is related to changes in personal income. Collections are moderately responsive to changes in personal income, as reflected by a tax elasticity of 1.06. That is, for every 10% change in personal income, tax collections change by 10.6%.

COMPARISON WITH OTHER STATES

See “Franchise Taxes,” in the General Fund Section.

Recent Tax Legislation

**2000 LEGISLATIVE SESSION
GENERAL FUND**

Change in the Law	Estimated Fiscal Effect			
	2000-01	2001-02	2002-03	2003-04
CORPORATE INCOME TAX				
Amends the Bill Lee Act as follows: 1) expands the length of time credits may be carried-forward under certain circumstances, effective January 1, 2001; 2) varies some of the wage standards necessary to receive job credits or grants; 3) expands the list of eligible businesses that may qualify for Bill Lee Act credits to include an auxiliary subdivision of an interstate passenger air carrier primarily engaged in aircraft maintenance, effective January 1, 2001; 4) provides that the 75% low income housing credit is allowed in counties that have been designated as having sustained moderate or severe damage from a hurricane, Effective January 1, 2001 and expires January 1, 2005; 5) eliminates the requirement that a taxpayer must have 5 or more employees for at least 40 weeks per year to qualify for the jobs tax credit, effective January 1, 2000; 6) specifies that a tier 2 county remain a tier 2 county for at least two years before moving to a higher tier (with less favorable incentives), even if economic conditions become more favorable, effective January 1, 2000; and 7) makes other changes.	0.1	0.3	0.4	
Provides an income tax credit of 20% of the cost of purchasing or leasing non-hazardous dry cleaning equipment, effective July 1, 2001.	-0.6	-0.4	-0.5	
Changes the reference to the Internal Revenue Code used in defining and determining certain state income tax provisions from June 1, 1999 to January 1, 2000.	-2.0	-4.4	0.6	0.9
Replaces the corporate tax credit for constructing a photovoltaic equipment facility with a corporate tax credit for constructing a renewable energy facility, effective January 1, 2000.	Insign	Insign	Insign	Insign

**2000 LEGISLATIVE SESSION
GENERAL FUND**

Change in the Law	Estimated Fiscal Effect			
	2000-01	2001-02	2002-03	2003-04
INDIVIDUAL INCOME TAX				
Provides an income tax credit of 20% of the cost of purchasing or leasing non-hazardous dry cleaning equipment, effective July 1, 2001.	See Corporate Income Tax			
PRIVILEGE/EXCISE TAX				
Increases the privilege tax on chlorine based dry cleaning solvents from \$5.85 per gallon to \$10 per gallon, and the privilege tax on hydrocarbon based dry cleaning solvents from \$0.80 per gallon to \$1.35 per gallon, effective August 1, 2000.	0.3	0.5	0.5	0.5
SALES AND USE TAX				
Transfers 60% of the state sales tax on dry cleaning and laundry services to the Dry Cleaning Solvent Cleanup fund, effective April 1, 2003. This is not a tax decrease, but the transfer will cause a decrease in General Fund revenue.				-9.1
Enters into the Streamlined Sales Tax System. Enacts uniformity of certain rules and procedures for enforcing and collecting the use tax. The tax will be collected by a private entity called a Certified Sales Provider. The objective is to facilitate the collection of use taxes (out-of-state sales). This is the first step in a long national process for states to collect taxes on internet and catalog sales. No fiscal estimate at this point. However, if fully implemented may lead to the collection of over \$400 million in use taxes. This bill is effective January 1, 2001.	Unkn	Unkn	Unkn	Unkn

**2000 LEGISLATIVE SESSSION
HIGHWAY FUND AND HIGHWAY TRUST FUND**

Change in the Law	Estimated Fiscal Effect			
	2000-01	2001-02	2002-03	2003-04
MOTOR FUEL TAX				
Exempts charter schools from paying the motor fuel tax, effective October 1, 2000.	Insign	Insign	Insign	Insign
OTHER				
Provides an alternative method of title transfer when the manufacturer's statement of origin or existing certificate of title is not available in a timely manner, effective May 1, 2001.	0.1	0.8	0.8	0.8
Increases the fee for a single trip oversize/overweight permit from \$10 to \$12. Replaces the fee schedule for annual permits with a \$200 annual permit fee for moving house trailers, and \$100 for moving other commodities. Makes other changes. This bill becomes effective October 1, 2000.	0.4	0.6	0.6	0.7
SPECIAL LICENSE PLATES				
Authorizes the issuance of the following plates: 1) Support Public Schools; 2) Ducks Unlimited; 3) Omega Psi Phi Fraternity; 4) Tobacco Heritage; 5) Litter Prevention; and 6) Goodness Grows. Each special plate cost \$20 for the regular registration fee plus an additional fee as shown below. Of the additional fee the first \$10 is credited to the Special Registration Plate Account to cover the cost of making the plate, with the remainder dedicated to the sponsoring group. The effective dates vary.	Insign	Insign	Insign	Insign

**2000 LEGISLATIVE SESSION
LOCAL GOVERNMENT**

Change in the Law	Estimated Fiscal Effect			
	2000-01	2001-02	2002-03	2003-04
EXCISE TAX ON CONVEYANCES Clarifies that the excise tax on instruments conveying real property applies to timber deeds and contracts for the sale of standing timber, effective July 1, 2000.	None	None	None	None
OTHER TAXES Extends the \$3 white goods tax beyond its July 1, 2001 expiration date. This tax brings in approximately \$4 million per year.	None	None	None	None
PROPERTY TAX Exempts short term leases motor vehicle (less than 365) from the property tax. This bill becomes effective July 1, 2000.	-5.1	-5.6	-5.6	-5.6
Authorizes cities and counties to levy a gross receipts tax of up to 1.5%. This bill becomes effective July 1, 2000.	6.9	7.6	7.6	7.6
Exempts motor vehicles that are owned by a disabled veteran and altered to accommodate a service-connected disability, effective July 1, 2000.	-0.1	-0.1	-0.1	-0.1
Extends the sunset on the exemption for Continuing Care Retirement Communities to July 1, 2001. These facilities received \$5.1 million in exemptions during the previous year. Makes technical changes.	None	None	None	None
Creates a decreasing schedule of partial property tax exemptions during the first five taxable years on Brownfield sites, effective July 1, 2001.	Unkn	Unkn	Unkn	Unkn

**2001 LEGISLATIVE SESSION
GENERAL FUND**

Change in the Law	Estimated Fiscal Effect			
	2001-02	2002-03	2003-04	2004-05
ALCOHOLIC BEVERAGE TAX				
Reduces the excise tax on spirituous liquor sold in ABC stores from 28% to 25%, effective February 1, 2002. (The state imposed a 6% sales tax on this item effective December 1, 2002. See Sales and Use Tax. Estimated fiscal effect based only on the excise tax reduction.)	-3.5	-10.9	-11.4	-12.0
CORPORATE INCOME TAX				
Clarifies that royalty payments received for the use of trademarks in North Carolina are income derived from doing business in the State. Effective January 1, 2001.	22.0	21.0	21.8	22.4
Conforms the state's subsidiary dividend deduction to that of most states by piggybacking the federal dividends received deduction requirements for state income tax purposes. Effective January 1, 2001.	30.8	32.3	33.6	34.5
Extends the sunset on the credit for using North Carolina state ports from February 28, 2001 to January 1, 2003, effective March 2, 2000.	-0.7	-0.7	-0.7	-0.7
FRANCHISE TAX				
Requires that a corporation include Limited Liability Corporation's (LLC) assets in its franchise tax base if the corporation is entitled to receive 70% or more of the assets upon dissolution of the LLC. Effective January 1, 2002.	10.5	11.0	11.4	11.7
Requires that the utility franchise and excise taxes be paid on a semi-monthly basis, instead of monthly, effective January 1, 2002.	14.5	Nonrecurring		
		Recurring		
	0.9	1.9	2.0	2.0

**2001 LEGISLATIVE SESSION
GENERAL FUND**

Change in the Law	Estimated Fiscal Effect			
	2001-02	2002-03	2003-04	2004-05
FRANCHISE TAX: Continued				
Makes numerous changes in the Bill Lee Act, including: 1) expanding eligible businesses to include computer services, electronic shopping and mail order houses, certain warehousing, effective January 1, 2001; 2) increases population thresholds used in determining county tier designations, effective November 29, 2001; 3) increases the time period for carrying-forward credits for research and development from 5 to 15 years, effective January 1, 2002; 4) creates a new credit for the purchase or lease of real property, effective January 1,2002 for real property first used in an eligible business on or after that date; 5) reducing sales tax on electricity sold to manufacturers, effective January 1, 2002; and 6) other changes, effective January 1, 2002.	-0.3	-1.1	-6.5	-12.6
Increases the utilities regulatory fee from 0.09% to 0.1% for fiscal year 2001-02, and set the regulatory fee paid by the North Carolina Electric Membership Corporation at \$200,000. This bill becomes effective July 1, 2002.	1.0	Special Fund		
INDIVIDUAL INCOME TAX				
Creates a new 8.25% tax bracket for married couples filing jointly with taxable incomes above \$200,00, head-of-households above \$160,000, single above \$120,000, and married filling separately above \$100,000. The new rate is effective For tax year 2001 and sunsets after 2003.	125.5	102.9	61.6	
In order to reduce the marriage penalty, increases the standard deduction for married couples filing jointly from \$5,000 to \$5,500 in tax year 2002 and to \$6,000 in tax year 2003The standard deduction for a single filer is \$3,000.	-9.7	-32.0	-45.0	-45.8

**2001 LEGISLATIVE SESSSION
GENERAL FUND**

Change in the Law	Estimated Fiscal Effect			
	2001-02	2002-03	2003-04	2004-05
INDIVIDUAL INCOME TAX: Continued				
Employers who withhold less than \$250 per month file quarterly. Employers who withhold \$250 to \$2,000 per month file monthly. Employers who withhold \$2,000 or more per month pay at the same time federal withholding is due. This bill is effective January 1, 2002.	57.1	Nonrecurring		
	0.9	Recurring	1.9	2.0
			2.2	
Increases the tax credit for children from \$60 to \$75 per child in tax year 2002 and to \$100 in tax year 2003.		-19.8	-54.8	-55.0
Repeals the Children's Health Insurance Credit, effective for the tax year 2001. By applying the savings to a Federal program the State will be able to generate additional benefits and increase the recipient population.	18.9	18.9	18.9	18.9
Updates statutory reference to the Internal Revenue Code from January 1, 2000 to January 1, 2001.	-3.4	-3.8	-3.4	-3.6
Enforces the requirement for employer to remit withheld income taxes on an accelerated basis (within 3 days after payroll date), effective January 1, 2001.	12.6	12.6	12.6	12.6
Permits a pass-through entity (limited liability partnership, general partnership, S-corporation, or LLC) to allocate a low income housing credit to any of its owners at its discretion, effective January 1, 2001.	Insign	Insign	Insign	Insign
Makes numerous changes in the Bill Lee Act. (See Corporate Income Tax.)	See Corporate Income Tax			

**2001 LEGISLATIVE SESSION
GENERAL FUND**

Change in the Law	Estimated Fiscal Effect			
	2001-02	2002-03	2003-04	2004-05
INSURANCE TAX				
Taxes the gross premiums of HMOs and Medical Service Companies (Blue Cross/Blue Shield and Delta Dental) at 1.1% effective January 1, 2003, and 1% thereafter. Currently, HMOs are exempt from the tax, and Medical Service Companies pay 0.5%.		28.2	16.2	26.8
Sets the regulatory charge for calendar 2001 at 6.5% from 7%. This bill becomes effective September 28, 2001.	-1.7	Special Fund		
OTHER				
Expands the current program for outsourcing the collection of tax debts to include in-state tax debts in addition to out-of-state debts. Effective August 9, 2001.	50.0	Estimated Revenue from Enforcement 50.0		
SALES AND USE TAX				
Imposes a 6% state sales tax on spirituous liquor, effective December 1, 2001.	11.9	24.7	25.6	26.6
Continues process of participating in the Streamlined Sales Tax Project by conforming our law to the model legislation. The objective is to facilitate the collection of use taxes (out-of-state sales). This is the first step in a long national process for states to collect taxes on internet and catalog sales. Various components have different effective dates.	Insign	Insign	Insign	Insign
Creates a three-day sales tax holiday each August for clothing, school supplies, computers and printers, and educational software, with a \$100 cap per item of clothing and a \$3,500 cap per computer. Effective beginning fiscal 2002-03.		-8.4	-7.7	-8.1

**2001 LEGISLATIVE SESSSION
GENERAL FUND**

Change in the Law	Estimated Fiscal Effect			
	2001-02	2002-03	2003-04	2004-05
SALES AND USE TAX: Continued				
Increases the 4% component of the state sales tax to 4 1/2% for the period October 16, 2001 to July 1, 2003. Repeals state reimbursement to local governments for property tax losses related to the repeal of taxes on inventories and intangibles, as well as some of the loss associated with the homestead exemption. Repeals reimbursement for sales taxes that are no longer paid on items purchased with food stamps. Repeal of reimbursements effective July 1, 2003, producing a \$333.4 million annual gain to the General Fund. Effective July 1, 2003, local governments will have the option of levying an additional 1/2% sales and use tax (See Local Government Section for more detail).	246.3	398.7		
Taxes all telecommunication services at 6%, effective January 1, 2002. Prior to January 1, 2002 the following tax rates applied: 1) most local call, 3% sales tax and 3.22% gross receipts franchise tax; 2) intrastate service, 6.5%, 3) interstate service, 0%; 4) intrastate toll calls 6.5%; and 5) local coin pay phones 0%.	34.8	89.5	89.5	89.5
Requires retail merchants whose monthly state and local sales tax collections amount to \$10,000 or more (from \$20,000 or more) to remit taxes on a semi-monthly basis instead of monthly. This bill is effective January 1, 2002.	9.7	Nonrecurring		
		Recurring		
	0.2	0.5	0.5	0.5
Imposes a 5% sales tax on the gross receipts derived from providing satellite TV service to subscribers. Effective January 1, 2002.	9.8	21.7	22.9	24.1
Changes tax distribution to local government from quarterly to monthly basis, effective July 1, 2003. The state loses interest income.			-9.6	-10.1

**2001 LEGISLATIVE SESSSION
GENERAL FUND**

Change in the Law	Estimated Fiscal Effect			
	2001-02	2002-03	2003-04	2004-05
SALES AND USE TAX: Continued				
The sale of newspapers through all vending machines is exempt from sales taxation, effective January 1, 2002. Previously only sales sold in a newspaper vending rack operated as a newspaper street vendor were exempt	Insign	Insign	Insign	Insign
Imposes a 4.5% state and applicable local sales tax on fertilizer and seeds sold to consumers other than farmers, effective February 1, 2002.	2.3	6.3	5.7	5.9
Require large utilities to shift from monthly to semi-monthly payments of sales taxed owed on electricity and telephone services, effective January 1, 2002.	15.3	Nonrecurring		
	0.9	Recurring		
		1.8	1.8	1.9

2001 LEGISLATIVE SESSION
HIGHWAY FUND AND HIGHWAY TRUST FUND

Change in the Law	Estimated Fiscal Effect			
	2001-02	2002-03	2003-04	2004-05
HIGHWAY USE TAX				
Removes the \$1,500 tax ceiling on the 3% highway use tax on noncommercial vehicles, effective October 1, 2001. Exempts fire trucks and rescue vehicles purchased by volunteer departments from the tax. The revenue gained is transferred to the General Fund.	1.7	2.4	2.6	2.7
Restores the \$1,500 tax ceiling for recreational vehicles (RV) weighing less than 26,000 pounds. RVs weighing more than 26,000 are subject to a \$1,000 cap. This bill is effective October 1, 2001.	-0.6	-0.9	-1.0	-1.0
MOTOR FUEL TAX				
Allows a refund for off-road fuel used by a commercial vehicle that delivers and spreads mulch, soils, and similar materials. The refund is equal to 1/3 of the motor fuel consumed by the vehicle. Motor fuel that is not taxed by the motor fuel tax is taxed by the sales tax. The refund is the net difference. This bill is effective January 1, 2001.	Insign	Insign	Insign	Insign
MOTOR VEHICLE INSPECTION FEES				
Increases the safety inspection fee from \$9.25 to \$14.45 effective October 1, 2001, and to a maximum of \$16 on January 1, 2003. Increases the emission and safety inspection fee from \$19.40 to \$33.45 on October 1, 2001, and to a maximum of \$34 on January 1, 2003. Earmarks part of the proceeds.	3.6	7.9	11.8	15.1

**2001 LEGISLATIVE SESSION
HIGHWAY FUND AND HIGHWAY TRUST FUND**

Change in the Law	Estimated Fiscal Effect			
	2001-02	2002-03	2003-04	2004-05
SPECIAL LICENSE PLATES				
Creates several special plates for the following groups: 1) Audubon North Carolina; 2) First in Forestry; 3) Military Veteran; 4) Military Wartime Veteran; 5) Save the Sea Turtles; 6) Special Forces Association; 7) US Navy Specialty; 8) The V Foundation for Cancer Research; and 9) Rocky Mountain Elk Foundation. Each special plate cost \$20 for the regular registration fee plus an additional fee as shown below. Of the additional fee the first \$10 is credited to the Special Registration Plate Account to cover the cost of making the plate, with the remainder dedicated to the sponsoring group. The effective dates vary.	Insign	Insign	Insign	Insign

**2001 LEGISLATIVE SESSION
LOCAL GOVERNMENT**

Change in the Law	Estimated Fiscal Effect			
	2001-02	2002-03	2003-04	2004-05
MEALS TAX				
Repeals all existing local meals tax penalties and applies the existing state sales and use tax penalty charges	Insign	Insign	Insign	Insign
PROPERTY TAX				
Clarifies the tax exemption for certain nonprofit continuing care retirement communities. The effect is to narrow those qualifying. This bill is effective July 1, 2001.	2.6	2.8	3.0	3.2
Increases the income eligibility limit to qualify for the homestead exemption from \$15,000 to \$18,000 for fiscal year 2002-03. For fiscal year 2003-04 and forward the income limit is adjusted by the Social Security Insurance cost of living adjustments. Maintains the \$20,000 minimum homestead exclusion, but allows for an exclusion of 50% of the tax value if the property value is greater than \$20,000. This bill becomes effective July 1, 2002.		-11.8	-12.0	-12.2
Provides that a farmer can transfer property classified as use value property to another farmer, regardless if the new farmer has property in this classification, effective January 1, 2002.	Insign	Insign	Insign	Insign
SALES AND USE TAX				
Continues process of participating in the Streamlined Sales Tax Project by conforming our law to the model legislation to reduce the cost of nationwide sales tax collections. Various components have different effective dates.	Insign	Insign	Insign	Insign
Changes tax distribution to local government from quarterly to monthly basis, effective July 1, 2003. The state loses interest income.			9.6	10.1

**2001 LEGISLATIVE SESSION
LOCAL GOVERNMENT**

Change in the Law	Estimated Fiscal Effect			
	2001-02	2002-03	2003-04	2004-05
SALES AND USE TAX: Continued				
Authorizes an additional 1/2% local option sales and use tax, effective July 1, 2003. Repeals state reimbursement to local government for property tax losses related to repeal of taxes on inventories, intangibles, partial cost of homestead exemption, and sales taxes that are no longer paid for items purchased by food stamps, effective July 1, 2003. The loss of these reimbursements will cost local governments \$333.4 million annually. The state will provide a hold harmless payment to local governments with a net loss in revenue. These payments are not shown, but begin at \$23.3 million and eventually fall to zero.	Additional 1/2% Sales Tax	419.8	441.2	
	Loss of Reimbursements	-333.4	-333.4	
	Net Gain	86.4	107.8	
Creates a three-day sales tax holiday each August for clothing, school supplies computers and printers, and educational software with a \$100 cap per clothing item and a \$3,500 cap per computer. This bill is effective beginning fiscal 2002-03.	-3.7	-4.9	-5.1	

Comparison of North Carolina's Tax System to That of Other States

TABLE 1

North Carolina is the 11th most populated state. North Carolina ranked 11th in the nation in total state and local tax collections, 11th in state tax collections, and 15th in local tax collections, in 1998-99. Among the 11 most populated states (1), North Carolina ranked 11th in state and local tax collections, 10th in state tax collections, and 11th in local tax collections. Among the 6 mid-Southeastern states (2) North Carolina is the 2nd most populated state, and ranked 2nd in state and local tax collections, 1st in state tax collections, and 3rd in local tax collections.

North Carolina relies heavily on state taxes rather than local taxes. State government tax collections represented 61% of state and local tax collections for the nation, 60% for the 11 most populated states, and 65% for the 6 mid-Southeastern states. For North Carolina, state taxes represented 71% of state and local tax collections, while local government tax collections stood at 29%.

In terms of state tax collections as a percent of state and local tax collections, North Carolina ranked 12th in the nation, 2nd among the 11 most populated states, and 2nd among the 6 mid-Southeastern states. In terms of local tax collections as a percent of total state and local tax collections, North Carolina ranked 39th in the nation, 10th among the largest states, and 5th in the mid-Southeast.

TABLE 1

**LEVEL AND PERCENTAGE DISTRIBUTION OF STATE AND LOCAL
TAX COLLECTIONS, BY LEVEL OF GOVERNMENT, FOR 1998-99
(\$MILLIONS)**

STATES	TOTAL	STATE GOVERNMENT	LOCAL GOVERNMENT	STATE GOVERNMENT	LOCAL GOVERNMENT
Alabama	8,770,411	6,032,234	2,738,177	69%	31%
Alaska	1,761,609	905,135	856,474	51%	49%
Arizona	12,237,979	7,542,735	4,695,244	62%	38%
Arkansas	6,076,982	4,608,936	1,468,046	76%	24%
California	104,977,251	72,387,698	32,589,553	69%	31%
Colorado	12,116,877	6,568,185	5,548,692	54%	46%
Connecticut	14,888,650	9,623,591	5,265,059	65%	35%
Delaware	2,471,752	2,030,789	440,963	82%	18%
Florida	40,244,933	23,798,564	16,446,369	59%	41%
Georgia	21,503,096	12,461,790	9,041,306	58%	42%
Hawaii	3,913,612	3,166,663	746,949	81%	19%
Idaho	3,039,342	2,171,127	868,215	71%	29%
Illinois	37,969,839	21,211,263	16,758,576	56%	44%
Indiana	15,575,751	9,736,077	5,839,674	63%	37%
Iowa	7,673,090	4,868,494	2,804,596	63%	37%
Kansas	7,292,434	4,589,475	2,702,959	63%	37%
Kentucky	9,760,823	7,356,834	2,403,989	75%	25%
Louisiana	10,533,303	6,491,235	4,042,068	62%	38%
Maine	4,082,369	2,540,581	1,541,788	62%	38%
Maryland	16,558,537	9,501,164	7,057,373	57%	43%
Massachusetts	22,269,422	14,731,769	7,537,653	66%	34%
Michigan	29,904,866	21,856,552	8,048,314	73%	27%
Minnesota	17,187,874	12,481,688	4,706,186	73%	27%
Mississippi	6,086,891	4,573,823	1,513,068	75%	25%
Missouri	14,027,725	8,563,594	5,464,131	61%	39%

(7) Georgia, Kentucky, North Carolina, South Carolina, Tennessee, Virginia.

(8) California, Florida, Georgia, Illinois, Michigan, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Texas.

TABLE 1: Continued

**LEVEL AND PERCENTAGE DISTRIBUTION OF STATE AND LOCAL
TAX COLLECTIONS, BY LEVEL OF GOVERNMENT, FOR 1998-99
(\$MILLIONS)**

STATES	TOTAL	STATE GOVERNMENT	LOCAL GOVERNMENT	STATE GOVERNMENT	LOCAL GOVERNMENT
Montana	2,041,456	1,345,730	695,726	66%	34%
Nebraska	4,623,913	2,662,103	1,961,810	58%	42%
Nevada	5,290,739	3,430,007	1,860,732	65%	35%
New Hampshire	3,110,088	1,070,803	2,039,285	34%	66%
New Jersey	31,575,898	16,926,417	14,649,481	54%	46%
New Mexico	4,469,003	3,454,440	1,014,563	77%	23%
New York	82,153,897	38,700,774	43,453,123	47%	53%
North Carolina	20,266,326	14,436,294	5,830,032	71%	29%
North Dakota	1,668,354	1,106,499	561,855	66%	34%
Ohio	32,301,429	18,178,726	14,122,703	56%	44%
Oklahoma	7,767,899	5,417,232	2,350,667	70%	30%
Oregon	8,536,218	5,341,403	3,194,815	63%	37%
Pennsylvania	35,192,509	21,588,754	13,603,755	61%	39%
Rhode Island	3,197,279	1,895,196	1,302,083	59%	41%
South Carolina	9,067,175	6,161,205	2,905,970	68%	32%
South Dakota	1,653,134	870,663	782,471	53%	47%
Tennessee	11,748,362	7,197,491	4,550,871	61%	39%
Texas	49,231,585	25,675,587	23,555,998	52%	48%
Utah	5,468,796	3,653,782	1,815,014	67%	33%
Vermont	1,784,409	1,388,345	396,064	78%	22%
Virginia	19,557,644	11,562,735	7,994,909	59%	41%
Washington	18,118,092	12,337,555	5,780,537	68%	32%
West Virginia	4,278,788	3,302,046	976,742	77%	23%
Wisconsin	17,417,597	11,627,782	5,789,815	67%	33%
Wyoming	1,357,106	811,648	545,458	60%	40%
United States	815,776,697	499,943,213	315,833,484	61%	39%

Source: Governmental Finances, 1998-99, U.S. Department of Commerce, December 2001.

TABLE 2

In fiscal 1998-99, North Carolina ranked 29th in the nation per capita state and local tax burden, 17th in per capita state tax burden, and 38th in per capita local tax burden. In terms of tax burden as a percent of personal income, North Carolina ranked 33rd in the nation, while ranking 19th and 41st respectively in state tax burden as a percent of personal income and local tax burden as a percent of personal income.

TABLE 2

**STATE RANKINGS OF STATE AND LOCAL TAX BURDEN,
PER CAPITA AND AS A PERCENT OF PERSONAL INCOME, FOR 1998-99**

STATES	PER CAPITA			PERCENT OF PERSONAL INCOME		
	TOTAL	STATE	LOCAL	TOTAL	STATE	LOCAL
Alabama	50	46	44	48	35	42
Alaska	22	45	6	39	47	5
Arizona	37	40	28	25	28	18
Arkansas	42	21	48	18	8	46
California	12	9	27	15	15	34
Colorado	17	33	7	40	45	8
Connecticut	1	1	4	8	14	16
Delaware	8	2	46	19	4	50
Florida	28	41	20	44	43	22
Georgia	25	37	16	29	36	13
Hawaii	7	3	43	5	1	49
Idaho	40	25	41	17	13	38
Illinois	14	23	5	34	44	9
Indiana	31	32	29	37	33	26
Iowa	27	28	30	28	25	25
Kansas	26	26	23	31	27	23
Kentucky	38	18	45	21	10	45
Louisiana	41	44	32	27	29	20
Maine	9	13	11	2	7	4
Maryland	11	19	8	38	42	15
Massachusetts	4	5	12	26	21	31
Michigan	15	7	36	14	12	40
Minnesota	5	4	26	4	6	36
Mississippi	48	31	49	22	11	44
Missouri	36	42	25	43	37	24
Montana	46	43	37	24	22	30
Nebraska	24	38	13	30	38	11
Nevada	19	16	22	41	31	32
New Hampshire	32	50	3	49	50	2
New Jersey	3	12	2	13	40	3
New Mexico	34	14	47	7	3	43

TABLE 2: Continued

**STATE RANKINGS OF STATE AND LOCAL TAX BURDEN,
PER CAPITA AND AS A PERCENT OF PERSONAL INCOME, FOR 1998-99**

STATES	PER CAPITA			PERCENT OF PERSONAL INCOME		
	TOTAL	STATE	LOCAL	TOTAL	STATE	LOCAL
New York	2	11	1	1	30	1
North Carolina	29	17	38	33	19	41
North Dakota	30	24	33	12	17	28
Ohio	20	34	10	23	39	6
Oklahoma	45	35	40	35	20	39
Oregon	33	36	31	45	34	29
Pennsylvania	18	22	18	32	32	21
Rhode Island	10	15	9	11	24	7
South Carolina	44	39	39	36	23	37
South Dakota	47	49	21	47	49	14
Tennessee	39	48	14	46	48	10
Texas	49	47	35	50	46	35
Utah	35	27	34	9	16	27
Vermont	16	6	42	6	2	47
Virginia	21	30	15	42	41	19
Washington	13	10	24	20	18	33
West Virginia	43	20	50	10	5	48
Wisconsin	6	8	19	3	9	17
Wyoming	23	29	17	16	26	12

Source: Governmental Finances, 1998-99, U.S. Department of Commerce, December 2001.

TABLE 3

States showed a net decrease in taxes during each of the Legislative periods from 1999 through 2001. In 1999, states decreased taxes by \$1.5 billion dollars or 0.3%. This was followed by decreases of \$9.9 billion or 2.0% in 2000, and \$7.3 billion or 1.7% in 2001. North Carolina had only minor net changes in 1999 and 2000, but increased taxes by \$466 million in 2001. North Carolina responded to the economic slow down before most other states.

TABLE 3

**ESTIMATED FISCAL IMPACT OF RECENT STATE TAX CHANGES
IN THE UNITED STATES, ENACTED IN 2001, 2000, AND 1999
(\$MILLIONS, %CHANGE)**

STATES	2001 LEGISLATION		2000 LEGISLATION		1999 LEGISLATION	
	NET CHANGE FY 2002	PERCENT OF 2000 TAXES	NET CHANGE FY 2001	PERCENT OF 1999 TAXES	NET CHANGE FY 2000	PERCENT OF 1998 TAXES
Alabama	3.4	0.1	203.5	3.4	147.0	2.6
Alaska	0.0	0.0	0.0	0.0	0.0	0.0
Arizona	516.4	6.4	-94.3	-1.3	-36.7	-0.5
Arkansas	203.1	4.2	0.0	0.0	10.7	0.3
California	-50.9	-0.1	-1,381.0	-1.9	-295.0	-0.4
Colorado	-19.5	-0.3	-206.1	-3.4	-928.5	-15.7
Connecticut	-239.0	-2.3	-336.7	-3.5	-348.2	-3.7
Delaware	0.0	0.0	0.0	0.0	-34.4	-1.7
Florida	-22.9	-0.1	-405.6	-1.7	-342.6	-1.5
Georgia	-5.9	0.0	-4.4	0.0	0.0	0.0
Hawaii	-89.1	-2.7	-256.5	-8.1	-5.6	-0.2
Idaho	-98.9	-4.2	-29.0	-1.3	-1.3	-0.1
Illinois	0.0	0.0	-710.0	-3.3	82.0	0.4
Indiana	-5.5	-0.1	-23.2	-0.2	-233.0	-2.4
Iowa	-32.3	-0.6	-11.4	-0.2	-7.6	-0.2
Kansas	22.9	0.5	-4.0	-0.1	28.1	0.6
Kentucky	0.0	0.0	23.5	0.3	0.0	0.0
Louisiana	-4.3	-0.1	195.2	3.2	-9.7	-0.2
Maine	24.6	0.9	-97.1	-3.8	20.1	0.8
Maryland	-112.4	-1.1	-197.2	-2.1	-74.0	-0.8
Massachusetts	-3.0	0.0	-221.0	-1.5	-68.0	-0.5
Michigan	-632.7	-2.8	-732.8	-3.1	-375.5	-1.7
Minnesota	-482.9	-3.6	-1,038.1	-8.3	-2,083.8	-18.1
Mississippi	2.0	0.0	-12.0	-0.3	-22.0	-0.5
Missouri	0.0	0.0	0.0	0.0	-478.3	-5.8
Montana	1.5	0.1	0.0	0.0	7.2	0.5
Nebraska	-1.6	-0.1	0.0	0.0	100.4	3.8
Nevada	8.0	0.0	0.0	0.0	0.0	0.0
New Hampshire	84.1	5.0	0.0	0.0	617.0	61.2
New Jersey	-323.0	-1.8	-437.0	-2.6	-70.0	-0.4

TABLE 3

**ESTIMATED FISCAL IMPACT OF RECENT STATE TAX CHANGES
IN THE UNITED STATES, ENACTED IN 2001, 2000, AND 1999
(\$MILLIONS, %CHANGE)**

STATES	2001 LEGISLATION		2000 LEGISLATION		1999 LEGISLATION	
	NET CHANGE FY 2002	PERCENT OF 2000 TAXES	NET CHANGE FY 2001	PERCENT OF 1999 TAXES	NET CHANGE FY 2000	PERCENT OF 1998 TAXES
New Mexico	-1.8	0.0	-8.4	-0.2	-2.1	-0.1
New York	-311.5	-0.7	-1,025.5	-2.6	-1,092.3	-3.0
North Carolina	465.7	3.1	-2.0	0.0	5.8	0.0
North Dakota	0.0	0.0	-2.2	-0.2	-2.4	-0.2
Ohio	-100.6	-0.5	-562.2	-3.1	-294.0	-1.7
Oklahoma	10.3	0.2	28.2	0.5	-28.5	-0.5
Oregon	-308.5	-5.2	0.0	0.0	-93.3	-1.9
Pennsylvania	-69.8	-0.3	-773.6	-3.6	-327.6	-1.6
Rhode Island	-1.1	-0.1	5.9	0.3	-15.9	-0.9
South Carolina	47.7	0.7	-31.5	-0.5	-5.9	-0.1
South Dakota	-10.4	-1.1	0.0	0.0	20.0	2.4
Tennessee	0.0	0.0	0.0	0.0	0.0	0.0
Texas	20.8	0.1	-173.8	0.7	-121.4	-0.5
Utah	-22.4	-0.6	-5.5	-0.2	-13.4	-0.4
Vermont	7.5	0.5	0.8	0.1	-11.0	-1.1
Virginia	1.0	0.0	-102.7	-0.9	-42.6	-0.4
Washington	107.9	0.9	-845.3	-6.9	-477.8	-4.0
West Virginia	-16.0	-0.5	5.0	0.2	4.0	0.1
Wisconsin	-50.2	-0.4	-641.4	-5.5	-433.7	-3.9
Wyoming	0.0	0.0	4.5	0.6	-6.8	-0.8
United States	-1,489.3	-0.3	-9,904.9	-2.0	-7,340.6	-1.7

Source: *State Tax Actions*, National Conference of State Legislatures, Denver Colorado, February 2002, 2001, and 2000.

TABLE 4

North Carolina's per capita state and local tax burden was \$2,649 in 1998-99, while the per capita tax burden for the nation stood at \$2,992, the average for the 11 most populated states registered \$3,125, and the average for the 6 mid-Southeastern states was \$2,578. North Carolina's per capita state and local tax burden ranked 29th for the nation, 3rd for the mid-South, and 10th for the 11 most populated states. North Carolina has a relatively high per capita state tax burden, and a very low per capita local tax burden. In terms of per capita state tax burden, North Carolina ranked 17th in the nation, 5th among the largest states, and 1st in the mid-South. In terms of per capita local tax burden, North Carolina ranked 38th in the nation, last among the largest states, and 4th in the mid-South.

North Carolina's state and local tax burden as a percent of personal income was 10.55% in 1998-99, while the tax burden for the nation stood at 11.05%, and was 11.19% in the 11 most populated states, and 10.3% among the 6 mid-Southeastern states. North Carolina's state and local tax burden as a percent of personal income ranked 33rd in the nation, 8th among the 11 most populated states, and 3rd among the 6 mid-Southeastern states. North Carolina has a relatively high state tax burden, and a very low local tax burden. In terms of state taxes North Carolina ranked 19th in the nation, 3rd among the largest states, and 2nd in the mid-South. In terms of local tax burden North Carolina ranked 41st in the nation, last among the largest states, and 5th in the mid-South.

TABLE 4

**STATE AND LOCAL TAX COLLECTIONS, PER CAPITA AND
AS A PERCENT OF PERSONAL INCOME, FOR THE ELEVEN MOST
POPULATED STATES AND THE MID-SOUTHEASTERN STATES, FOR 1998-99**

STATES	PER CAPITA			PERCENT OF PERSONAL INCOME		
	TOTAL	STATE	LOCAL	TOTAL	STATE	LOCAL
UNITED STATES	2,992	1,833	1,158	11.05%	6.77%	4.28%
MOST POPULATED	3,125	1,849	1,275	11.19%	6.62%	4.57%
California	3,167	2,184	983	11.36%	7.83%	3.53%
Florida	2,663	1,575	1,088	10.02%	5.93%	4.10%
Georgia	2,761	1,600	1,161	10.77%	6.24%	4.53%
Illinois	3,131	1,749	1,382	10.50%	5.86%	4.63%
Michigan	3,032	2,216	816	11.36%	8.30%	3.06%
New Jersey	3,878	2,079	1,799	11.37%	6.09%	5.27%
New York	4,515	2,127	2,388	14.03%	6.61%	7.42%
North Carolina	2,649	1,887	762	10.55%	7.52%	3.04%
Ohio	2,869	1,615	1,255	10.99%	6.18%	4.80%
Pennsylvania	2,934	1,800	1,134	10.72%	6.57%	4.14%
Texas	2,456	1,281	1,175	9.68%	5.05%	4.63%
MID-SOUTHEASTERN	2,578	1,660	918	10.30%	6.63%	3.67%
Georgia	2,761	1,600	1,161	10.77%	6.24%	4.53%
Kentucky	2,464	1,857	607	11.10%	8.37%	2.73%
North Carolina	2,649	1,887	762	10.55%	7.52%	3.04%
South Carolina	2,333	1,585	748	10.48%	7.12%	3.36%
Tennessee	2,142	1,312	830	8.80%	5.39%	3.41%
Virginia	2,846	1,682	1,163	10.16%	6.01%	4.15%

Source: Governmental Finances, 1998-99, U.S. Department of Commerce, December 2001.

TABLE 5

North Carolina relies more heavily on the individual income tax as a revenue source than is typical in other states. The individual income tax makes up 32.5% of state and local taxes in North Carolina compares to 23.2% for the nation, 22.5% for the most populated states, and 26.2% for the mid-Southeastern states. North Carolina also places a greater reliance on the motor fuels tax and motor vehicle license taxes. On the other hand, North Carolina relies less heavily on most other taxes. This is especially true in comparing property taxes. Property taxes consist of 21.5% of North Carolina state and local taxes, as compared to 29.4% for the nation, 30.7% for the most populated states, and 24.4% for the mid-Southeastern states.

North Carolina has a higher individual income tax burden and a higher motor fuels tax burden as compared to the nation, the most populated states, and the mid-Southeastern states. On the other hand the state has a lower tax burden in most other taxes. This is especially true for the property tax.

TABLE 5

**PERCENTAGE DISTRIBUTION, PER CAPITA TAX BURDEN, AND
TAX BURDEN AS A PERCENT OF PERSONAL INCOME, OF STATE
AND LOCAL TAXES, BY TYPE OF TAX, FOR THE UNITED STATES,
ELEVEN MOST POPULATED STATES (1) SIX MID-SOUTHEASTERN STATES (2),
AND NORTH CAROLINA, FOR 1998-99**

REVENUE SOURCE	UNITED STATES	MOST POPULATED	MID SOUTHEAST	NORTH CAROLINA
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PERCENTAGE DISTRIBUTION

INDIVIDUAL INCOME	23.2%	22.5%	26.2%	32.5%
SALES AND USE	24.6%	24.3%	26.8%	21.7%
PROPERTY	29.4%	30.7%	24.3%	21.5%
CORPORATE INCOME	4.2%	4.6%	3.6%	4.5%
MOTOR FUELS	3.7%	3.1%	4.4%	5.7%
MOTOR VEHICLE LICENSES	1.9%	1.8%	1.8%	2.1%
OTHER	13.0%	13.0%	12.9%	12.0%
TOTAL TAX	100.0%	100.0%	100.0%	100.0%

PER CAPITA TAX BURDEN

INDIVIDUAL INCOME	694	704	675	861
SALES AND USE	736	760	692	575
PROPERTY	881	959	627	569
CORPORATE INCOME	124	144	92	120
MOTOR FUELS	110	97	114	150
MOTOR VEHICLE LICENSES	56	55	47	56
OTHER	390	406	332	319
TOTAL TAX	2,992	3,125	2,578	2,649

TABLE 5: Continued

**PERCENTAGE DISTRIBUTION, PER CAPITA TAX BURDEN, AND
TAX BURDEN AS A PERCENT OF PERSONAL INCOME, OF STATE
AND LOCAL TAXES, BY TYPE OF TAX, FOR THE UNITED STATES,
ELEVEN MOST POPULATED STATES (1) SIX MID-SOUTHEASTERN STATES (2),
AND NORTH CAROLINA, FOR 1998-99**

REVENUE SOURCE	UNITED STATES	MOST POPULATED	MID SOUTHEAST	NORTH CAROLINA
TAX BURDEN AS A PERCENT OF PERSONAL INCOME				
INDIVIDUAL INCOME	2.56%	2.52%	2.70%	3.43%
SALES AND USE	2.72%	2.72%	2.76%	2.29%
PROPERTY	3.25%	3.43%	2.51%	2.27%
CORPORATE INCOME	0.46%	0.52%	0.37%	0.48%
MOTOR FUELS	0.41%	0.35%	0.46%	0.60%
MOTOR VEHICLE LICENSES	0.21%	0.20%	0.19%	0.22%
OTHER	1.44%	1.46%	1.33%	1.27%
TOTAL TAX	11.05%	11.19%	10.30%	10.55%

(1) California, Florida, Georgia, Illinois, Michigan, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Texas.

(2) Georgia, Kentucky, North Carolina, South Carolina, Tennessee, Virginia.

Source: Governmental Finances, 1998-99, U.S. Department of Commerce, December, 2001.